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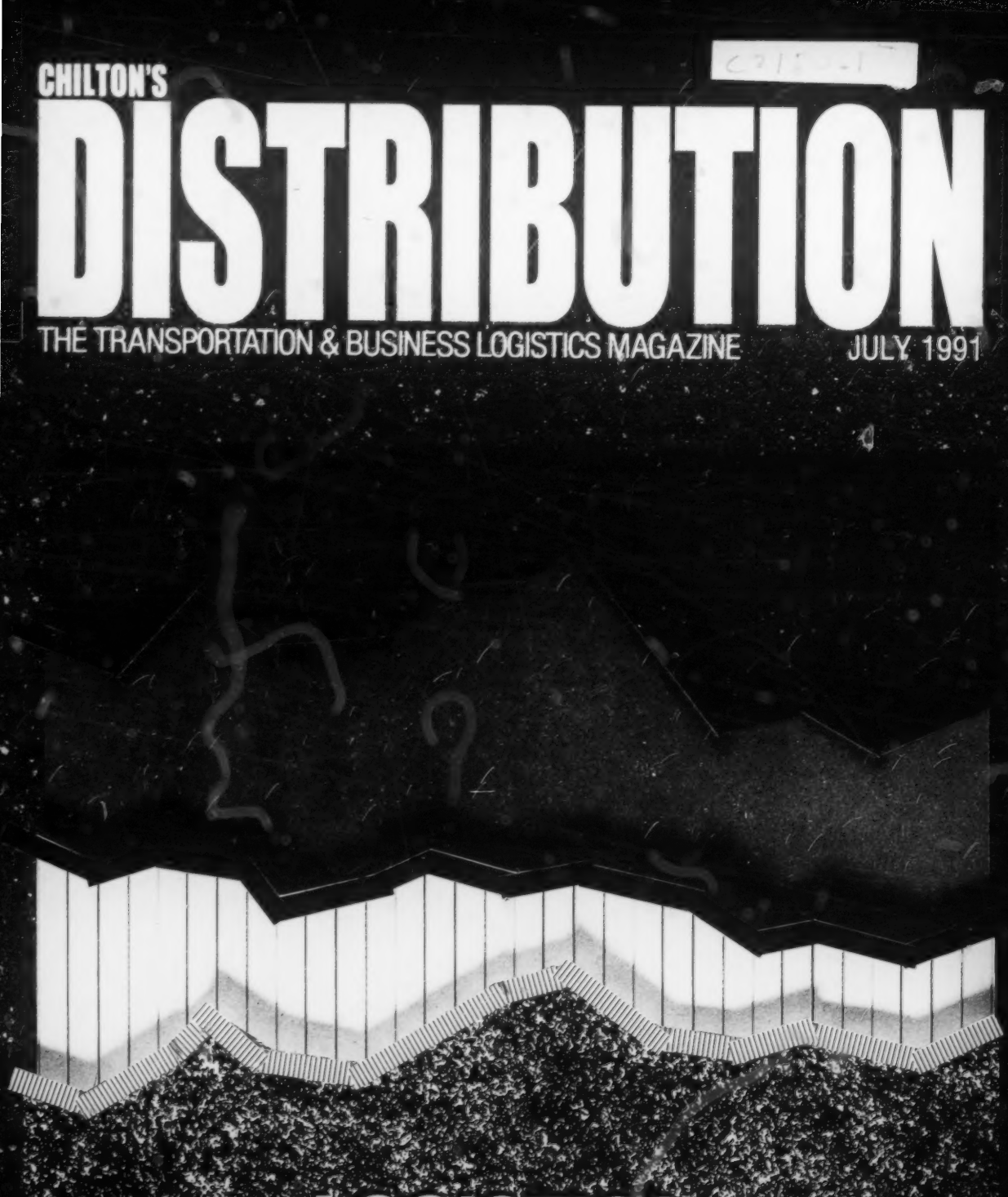

LOGISTICS ANNUAL REPORT

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VOL. 90, NO. 8 — CHILTON'S DISTRIBUTION — JULY 1991
THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE

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DISTRIBUTION, ISSN 0273-6721, owned by Chilton Co., is published 13 times a year: monthly with two issues in July, at Chilton Way, Radnor, PA 19089, (215) 964-4000. Chilton Co., part of Capital Cities/ABC, Inc., New York, N.Y. Second Class Postage Paid at Wayne, PA 19087 and additional mailing offices. © CHILTON COMPANY 1991. Subscription rate: U.S. and possessions, $55 per year. Canadian, $60. Foreign $80. Single issue $4.00 except July issue—$40 per copy. Address editorial correspondence to Editor-in Chief, DISTRIBUTION, Chilton Co., Radnor, PA 19089. Postmaster: Send form 3579 to DISTRIBUTION, P.O. Box 2106, Radnor, PA 19089-2106. Canadian GST Registration Number is R125906743. Permission to photocopy for internal use or the internal use of specific clients is granted by Chilton Company for libraries and other users registered with the Copyright Clearance Center (CCC), provided that the base fee of $1.00 per copy of the article, plus 25¢ per page is paid directly to the CCC, 21 Congress Street, Salem, MA 01970. (0273-6721/87 $1.00 + 25¢.)

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Logistics as a percent of GNP has not improved since 1986.

Logistics: Our Economy's Engine

Logistics saved the U.S. from a deeper recession, and it could shift our economy into high gear if more deregulation was enacted.

By Thomas A. Foster, Esq., Editorial Director

The recession of 1990 and 1991 marks the end of our nation's longest post-war economic boom. But this period will also be known as the time when top business executives, economists and government leaders saw graphic proof of how important logistics has become to managing our economy.

Were it not for the ability of logistics managers to tightly control inventories throughout the supply chain, our current economic slump would be much worse.

When we entered this recession last summer, the combination of a war, soaring fuel prices, and a severe credit crunch could have pushed us into a two- or three-year downward spiral. But less than a year into this recession, leading economic indicators show production is increasing, suggesting that we are back on the road to recovery.

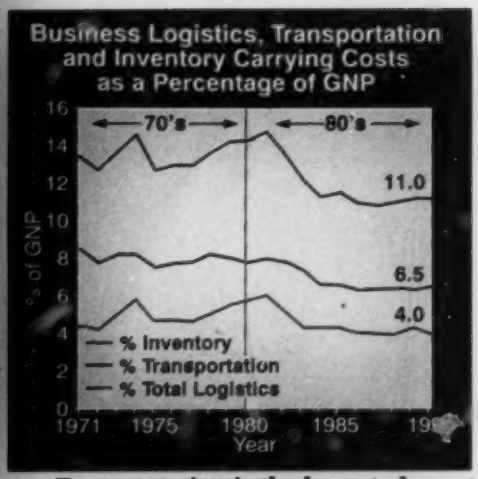
Logistics management deserves much of the credit. Shippers learned how to keep inventory levels lean during the prosperous years of the 1980s. When slackening demand and rising costs signaled a recessionary slump last summer, manufacturers in

continued

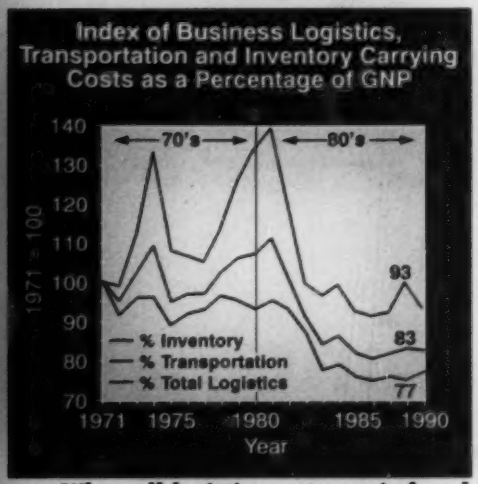
U.S. LOGISTICS COSTS ($ Billion Except GNP)

Year	GNP $ Trillion	Value of Inventory	Inventory Carrying Rate	Inventory Carrying Costs	Transportation Costs	Administrative Costs	Total U.S. Logistics Cost	Logistics % of GNP
1971	1.08	189	.250	47	91	5	143	13.2
1972	1.25	215	.250	54	97	6	157	12.6
1973	1.33	240	.272	65	108	7	180	13.5
1974	1.43	286	.290	83	116	8	207	14.5
1975	1.55	288	.253	73	116	8	197	12.7
1976	1.72	319	.250	80	133	9	222	12.9
1977	1.92	351	.250	88	150	10	248	12.9
1978	2.16	397	.270	107	175	12	294	13.6
1979	2.42	444	.300	133	193	14	340	14.1
1980	2.63	483	.317	153	205	15	373	14.2
1981	2.94	520	.343	178	236	17	431	14.7
1982	3.07	520	.309	161	240	17	418	13.6
1983	3.31	510	.279	142	244	15	401	12.1
1984	3.78	546	.291	159	250	16	425	11.2
1985	4.00	645	.268	173	265	18	456	11.4
1986	4.24	657	.261	172	271	18	461	10.9
1987	4.53	683	.263	180	288	19	487	10.8
1988	4.87	735	.267	196	313	20	529	10.9
1989	5.23	780	.292	228	331	22	581	11.1
1990	5.46	810	.272	221	356	23	600	11.0

Source: Robert Delaney, Cass Logistics



Transportation is the largest element of total logistics costs, and is the key to greater logistics productivity.



When all logistics costs are indexed, transportation costs are the only expenditures that are edging higher.

all sectors were not burdened with months of inventory that had to be liquidated. Industrial production and employment were cut back, but only for two or three quarters.

According to Robert V. Delaney, executive vice president of Cass Logistics, our ability to better manage inventory was the one bright spot in an otherwise dismal 1990. Delaney calculates that inventory carrying costs in 1990 of $221 billion dropped 3.17 percent from the 1989 figure of $228 billion.

Cass Logistics is a freight payment and logistics information subsidiary of Cass Commercial Corp., a bank holding company in St. Louis. Delaney has charted U.S. logistics costs for over 20 years.

Delaney's annual *State of Business Logistics* reports that the U.S. spent $600 billion on logistics in 1990—up 3.27 percent from the $581 billion spent in 1989.

Inventory carrying costs of $221 billion represents the largest component of the 1990 business logistics expenditures. The interest portion of inventory in 1990 alone amounted to $66 billion. Delaney calculates the interest by multiplying 8.2 percent (the annualized commercial paper rate) times $805 billion—the total value of inventories held by manufacturers, wholesalers and retailers during 1990. Taxes, obsolescence and depreciation on inventory accounted for $84 billion. The cost of warehousing inventory accounted for $61 billion. This figure includes the cost of storing dry and temperature-controlled goods, agricultural commodities and bulk petrochemicals. Of this $61 billion, $8 billion is public and terminal warehousing and $53 billion is private warehousing.

A small, but important element of logistics costs is administration, which is primarily made up of salaries of all people involved with logistics on the shipper side of the industry. The 1990 figure was $23 billion compared to $22 billion in 1989. The increase was less than the rate of inflation, suggesting that logistics staffs continued to shrink in 1990.

The last and most important component of logistics costs is transportation. Total transportation costs in 1990 were $356 billion, up 7.5 per-

continued

Source of Logistics Savings	$ In Billions
Inventory Carrying	$30
Truck Transportation	30
Railroading	5
TOTAL	$65

Source: Robert Delaney, Cass Logistics

COMPONENTS OF 1990 LOGISTICS COST

	$ Billions
Inventory Carrying Costs	
Interest	66
Taxes, Obsolescence, Depreciation	84
Warehousing	61
Subtotal	221
Transportation Costs	
Motor Carriers	
Public and For Hire	77
Private and For Own Account	87
Local Freight Services	113
Subtotal	277
Other Carriers	
Railroads	32
Water Carriers	21
Oil Pipelines	9
Air Carriers	13
Subtotal	75
Shipper Related Costs	4
Distribution Administration	23
TOTAL LOGISTICS COST	$600

Source: Robert Delaney, Cass Logistics

Shippers have been able to constantly reduce inventory levels since 1980, but the rate of improvement is slowing.

Slackening logistics productivity is pushing up inflation, as seen by consumer price increases.

EC Single Market Benefits	Billion ECU
Trade Barriers	11 - 13
Manufacturing/Distribution Productivity Barriers	78 - 98
Competitive Economies	85 - 147
Total	174 - 258

Source: Robert Delaney, Cass Logistics

cent from 1989 levels of $331 billion.

This increase in transportation costs alarms Delaney, who sees the productivity gains made by transportation in the early 1980s as a result of partial deregulation quickly eroding.

"We are at a stalemate today in transportation productivity," says Delaney, who points out that business logistics averaged 14 percent of GNP between 1978 and 1980, with 1981 being our worst year at 14.1 percent of GNP.

Delaney says the forces of competition took over in 1982 as trucking and rail deregulation lowered transportation costs and enabled shippers to maintain lower inventory levels because of the availability of more reliable transportation. In fact, Delaney claims deregulation removed $65 billion of logistics costs in the five years immediately following deregulation. So by 1986, business logistics had declined to only 10.9 percent of GNP.

"But logistics costs have stood on that plateau for the past five years," says Delaney. "The question before us is, after five years of steep decline right after deregulation, is a five year plateau in logistics productivity rational? Or, has the protection that remains in our transportation industry produced a stalemate?"

Delaney claims more deregulatory legislation is the boost the economy now needs.

"If Congress enacts the Bush Administration's Surface Transportation Assistance Act without further delay," says Delaney, "we can operate our way out of this recession and into economic recovery."

Delaney focuses on interstate and intrastate trucking deregulation as the catalyst for recovery because motor carriers represent the largest single element of transportation costs. He claims costs for truck carriers are eight times greater than rail carriers and four times greater than the costs for all other transportation modes combined.

As an example of the direct link between deregulated transportation and lower inventory levels, Delaney points to the large safety stock levels held by U.S. industry before 1980.

"During the 1970s, variable transit times accounted for 40 percent of the lead time required in inventory replenishment formulas," he says. "By 1985, the variability of transit times was gone. Trucks were crossing the country in three days. Ford reduced inventory by $750 million, Chrysler by $200 million, Harley Davidson by 38 percent. Inventory turnover rate at Lever Brothers doubled. The declining slope of the nominal sales to inventory ratio means that we currently have $200 million less inventory investment in our business logistics system relative to final sales than we did in 1980."

Delaney says our partially deregulated transportation system has already shown how powerful a tool transportation and logistics can be to manage inventory.

"Procter & Gamble has a partnership arrangement with Wal-Mart where Wal-Mart reserves shelf space to display P&G products," says Delaney. "P&G guarantees Wal-Mart that no store will ever run out of these items. In this cooperative program, inventory turnover ranges between 100 and 120 times a year, and it is accomplished with precision transportation."

Another important element of our national economy that Delaney sees tied to transportation is energy consumption. He points out that better transportation productivity can drastically improve energy efficiency.

"Transportation accounts for 60 percent of our energy consumption," says Delaney. "Competition and productivity since 1980 have enabled us to rationalize the inter-city ton-miles that are required to operate our business logistics system.

"Our national policy must focus on reducing inter-city ton-miles, conserving energy, lowering costs and producing the best value for the consumers rather than protecting service suppliers," says Delaney.

As an example of how transportation can increase energy efficiency by cutting unnecessary inter-city trucking movements, Delaney cites Ross Laboratories, a leading manufacturer of health care products.

"Ross ships 80 truckloads a day from its five plants," says Delaney. "Most of the trucks loaded by Ross

continued

are operated by food manufacturers who earn income by transporting Ross products as a backhaul. Rationalization reduces the cost of transportation for Ross, the cost of private trucking and total inter-city ton-miles. We will not know what level of inter-city ton-miles is necessary to support GNP and industrial production until we pull the plug on market protection."

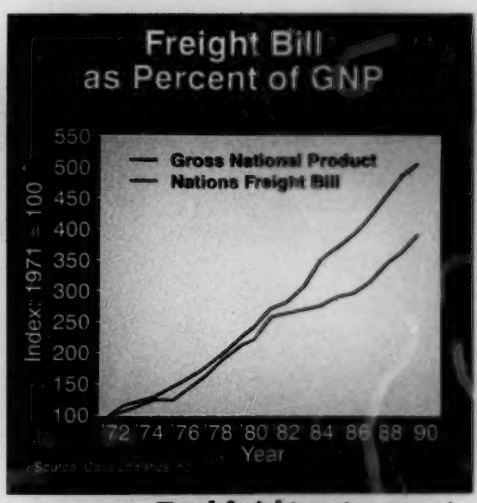
Delaney sees the 1990s as a make-or-break period for the U.S. economy because of the growing competition U.S. companies face from Asia and Europe. He says that during the 1990s the Europeans will cut $100 billion out their manufacturing and distribution costs. They will improve their competitiveness by another $158 billion by removing tariffs and other competitive barriers.

"The total forecast benefits will improve EC productivity by five to seven percent and create two million new jobs," says Delaney. "From Berlin to Bucharest, from Manchester to Milan, reform will start slowly and take at least a decade to achieve. But it will result in a single injection of productivity greater than occurred anywhere in the world since World War II.

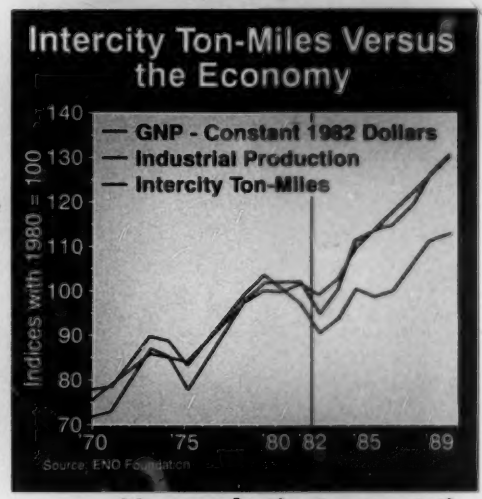
"It's time for Congress to remove regulatory protection and tell industry to get ready for business in the demanding 1990s," says Delaney.

As an example of how a "world class" U.S. company can compete globally, Delaney points to 3M as a model for success. In 1983, 3M had 1,000 carriers, but by 1990 only 30 core carriers accounted for 68 percent of 3M transportation expenditures, he says.

"3M did not focus on price in selecting its carrier partners," says Delaney. "Real cost reduction was a modest 7.5 percent. Instead 3M focused on service to accelerate inventory turnover. On-time performance was improved 28 percent. In 1983, the carriers provided on-time delivery only 75 percent of the time. By working with its partnership carriers, on-time performance reached almost 98 percent in 1990. That is how you become world class. That is why we must enact the productivity provisions of the Bush highway bill." ■



Total freight costs grew at a slower rate than GNP during the 1980s, but these costs are again climbing.



More productive transportation will keep ton-miles down as GNP and production increase.

"In order to improve our world competitiveness, we must drive U.S. Logistics costs to below 10 percent of GNP and keep it there."

	1981	1990	Goal
Transportation	8.0	6.5	5.8
Inventory	6.1	4.0	3.8
Administration	.6	.5	.3
TOTAL	14.7	11.0	9.9

Source: Robert Delaney, Cass Logistics

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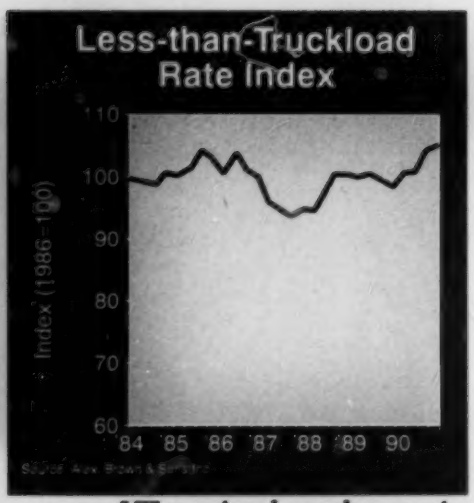


LTL carriers have shown price discipline in 1990 and 1991.

Holding The Line On LTL Rates

LTL carriers earned good profits in 1990, and they could still make 1991 an acceptable year if they can hold the line on rates.

By Thomas A. Foster, Esq., Editorial Director

For the nation's less-than-truckload carriers, 1990 financial performance was surprisingly good considering the fourth quarter brought a slowing economy and increasing fuel prices.

Nearly all major LTL carriers in 1990 enjoyed healthy increases in revenue and operating ratios that improved by a point or more. Net income—profitability after taxes and interest payments—was especially strong in all areas except the West.

So far, of course, 1991 has been a different story, but an economic turnaround could save LTL carriers from complete disaster.

For both 1990 and 1991, the key to success for the LTL industry has been pricing discipline, according to George Robertson, an analyst with the Baltimore brokerage firm of Alex. Brown & Sons.

"Even in these tough times, there has not been a return to the rate dis-

continued

NATIONAL LTL CARRIERS — 1990 vs. 1989
(Millions of Dollars)

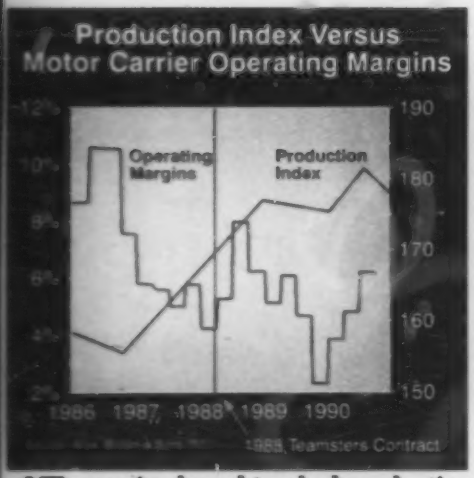
Rank	Carrier	1990 Revenue	1989 Revenue	% Change	1990 NI	1989 NI	% Change	1990 OR	1989 OR	Change
1.	Yellow Freight	2278.54	2189.64	+4.06	110.15	36.87	+198.76	94.50	98.30	+3.80
2.	Consolidated Freightways	2080.78	1894.95	+9.81	53.27	94.84	-43.83	95.20	95.00	-0.20
3.	Roadway Express	1965.20	1835.50	+7.07	91.51	83.82	+9.71	94.10	95.40	+1.30
4.	Overnite	801.83	697.78	+14.91	54.54	46.43	+17.47	90.60	91.00	+0.40
5.	ABF	750.89	630.14	+19.16	1.10	-10.34	NM	95.10	96.90	+1.80
6.	Carolina Freight	572.22	538.89	+6.19	0.84	1.43	-41.38	98.40	98.60	+0.20

Key: NI = net income; OR = operating ratio; NM = not meaningful
Source: ICC

INTERREGIONAL LTL CARRIERS — 1990 vs. 1989
(Millions of Dollars)

Rank	Carrier	1990 Revenue	1989 Revenue	% Change	1990 NI	1989 NI	% Change	1990 OR	1989 OR	Change
1.	Conway Transportation	484.84	383.42	+26.45	29.93	33.42	-10.44	88.80	85.80	-3.00
2.	Preston	404.56	366.94	+10.25	2.42	2.22	+9.01	98.60	98.80	+0.20
3.	Central Transport	265.26	276.95	-4.22	-719.00	2.81	NM	99.60	99.20	-0.40
4.	Watkins	248.03	204.80	+21.11	6.31	2.56	+146.48	93.80	95.70	+1.90
5.	Jones Truck Line	239.95	214.58	+11.82	-5.19	-1.16	-347.07	99.00	96.90	-2.10
6.	NW Transport	223.05	181.52	+22.88	11.58	8.15	+42.09	92.00	93.70	+1.70
7.	ANR Freight System	169.03	416.35	-59.40	-50.74	-17.58	-188.72	140.90	105.30	-35.60
8.	Churchill	161.00	145.01	+11.03	2.35	2.25	+4.04	98.00	97.80	-0.20
9.	Old Dominion	147.32	127.69	+15.37	4.38	1.30	+236.92	92.60	95.10	+2.50
10.	FFE Transportation	130.91	107.21	+22.11	1.44	2.02	-28.71	97.90	96.90	-1.00

Key: NI = net income; OR = operating ratio; NM = not meaningful
Source: ICC



LTL margins haved tracked production since the 1988 Teamster contract.

counting that has hurt LTL operating margins in the past," says Robertson.

The national and interregional carriers did especially well in limiting discounting in 1990 and so far in 1991. "The weakest sector in terms of pricing has been the regional carriers in the Midwest that were especially hurt by the collapse of the automotive industry," he says.

Even soaring fuel prices last winter have not been a major factor in carrier profitability, says Robertson. Fuel surcharges in the fourth quarter allowed LTL carriers to recoup most if not all of the additional costs.

This year, tonnage has dropped up to 10 percent for many carriers. This falloff, combined with higher labor costs, has lowered the 1991 profit outlook for the entire LTL industry.

April rate increases of five to six percent following the Teamster contract ratification have helped boost sagging margins, but further rate relief seems unlikely. In May, several carriers announced intentions to take an additional increase in July of about 3.5 percent, but given the continued softness in the economy, this increase was abandoned. "I doubt any LTL carrier will be able to take another rate increase in 1991," says Robertson. "Carriers are having a hard enough time holding the line on current rates."

Robertson, however, is optimistic about improvement for the remainder of 1991. "Operating margins will rebound strongly as the economy begins to recover because of the unexpected price discipline we have seen," he says.

Looking beyond the immediate finances of LTL carriers, Robertson points to three reasons why LTL carriers should fare better in the 1990s than they did in the '80s.

Consolidation within the industry has dissipated: After the bankruptcies of P.I.E. and Transcon, the remainder of the long-haul LTL carriers are evenly matched in terms of profitability. Mergers or acquisitions among the major carriers "would be too expensive to be worthwhile," says Robertson. At the regional LTL

continued

NORTHEAST/MIDDLE ATLANTIC LTL CARRIERS — 1990 vs. 1989
(Millions of Dollars)

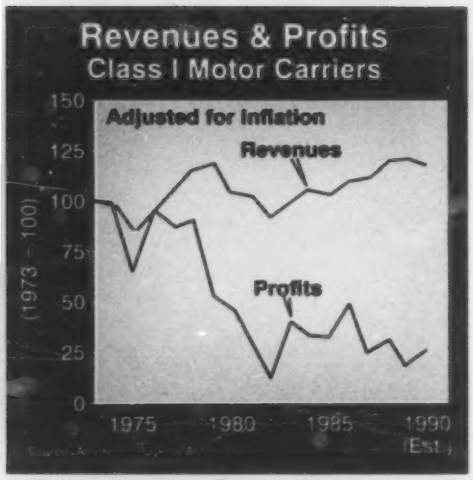
Rank	Carrier	1990 Revenue	1989 Revenue	% Change	1990 NI	1989 NI	% Change	1990 OR	1989 OR	Change
1.	St. Johnsbury	331.88	313.55	+5.85	1.98	1.87	+5.75	95.10	91.10	-4.00
2.	TNT Red Star	158.87	146.03	+8.79	2.12	4.71	-122.45	97.40	95.00	-2.40
3.	APA Transport	142.11	133.40	+6.53	8.60	7.60	+11.67	92.30	92.80	+0.50
4.	New Penn	125.03	113.27	+10.37	19.21	17.84	+7.15	79.30	80.00	0.70
5.	Estes	96.86	90.20	+7.38	9.78	8.98	+8.14	84.10	84.80	+0.70
6.	Wilson	59.63	57.66	+3.43	2.76	2.66	+3.69	92.80	92.80	—
7.	New England Motor	58.86	49.76	+18.29	1.80	1.48	+17.79	96.90	96.38	-0.52
8.	CBL Trucking	30.00	26.66	+12.53	0.23	0.23	—	98.13	97.32	-0.81

Data not available for certain carriers including Ward Trucking.
Key: NI = net income; OR = operating ratio
Source: ICC

MIDWEST LTL CARRIERS — 1990 vs. 1989
(Millions of Dollars)

Rank	Carrier	1990 Revenue	1989 Revenue	% Change	1990 NI	1989 NI	% Change	1990 OR	1989 OR	Change
1.	TNT Holland	250.87	206.24	+21.64	16.11	12.11	+33.04	88.80	89.60	+0.80
2.	Arkansas Freightways	142.95	97.59	+46.48	7.00	4.06	+72.30	90.40	92.00	+1.60
3.	Advance Transportation	114.32	102.99	+11.00	0.91	0.40	+130.30	97.00	97.40	+0.40
4.	Hyman	103.64	91.14	+13.71	0.46	0.91	-49.01	99.00	98.00	-1.00
5.	Fore Way	67.48	60.80	+10.99	0.01	0.56	-98.75	99.70	98.00	-1.70
6.	Crouse Cartage	61.17	55.13	+10.95	1.65	1.44	+15.93	95.30	95.30	—
7.	Jones Transfer	59.98	65.75	-8.77	-1.46	-0.78	+86.92	99.80	97.10	-2.70
8.	Be-Mac	52.92	51.21	+3.53	-0.92	-0.81	+13.72	98.90	99.10	+0.20

Key: NI = net income; OR = operating ratio
Source: ICC



LTL carriers now focus more on margins than they do on market share or revenue.

level, Robertson sees considerably more chance of consolidation through mergers or bankruptcies, but he would be "very surprised if the industry self-destructs in the 1990s as it did in the 1980s through massive price cutting."

Resurgence of U.S. manufacturing: Throughout the 1980s, the U.S. shifted from a manufacturing economy to a distribution economy increasingly dependent on imported goods.

"Many imported consumer goods move inland via rail or air and therefore bypass the LTL carriers," Robertson says. Imports in the U.S. doubled from 8 to 16 percent of GNP in the 1980s. Part of this increase was due to a U.S. "Cold War" policy that promoted easy access to our markets from European and Asian nations our government was wooing. These imports came at the expense of domestic producers, who now are more aggressive and have a stronger political voice. "With the collapse of the East bloc, our industrial and trade policies are likely to change," says Robertson. "America will have to manufacture more relative to what we consume in the 1990s to avoid a massive decline in living standards. Such a trend will help LTL truckers because manufacturing is transportation intensive."

LTL carriers regaining market share from TL carriers: During the 1980s, aggressive TL carriers added capacity and cut rates—even in the face of rising costs—to gain both TL and large LTL traffic. To survive in the 1990s, TL carriers cannot afford to be as aggressive, but will have to focus on improving margins. LTL carriers should be more competitive, especially if the availability of TL drivers remains tight, taxes and user fees continue to rise, and higher LTL wages lead to much lower employee turnover. And because TL carriers spend two to three times as much on fuel as a percent of revenue as LTL carriers, they will be much more vulnerable to fuel price surges.

Not all LTL carriers will find themselves in a comfortable niche, notes

continued

SOUTHEAST & SOUTH CENTRAL LTL — 1990 vs. 1989 (Millions of Dollars)

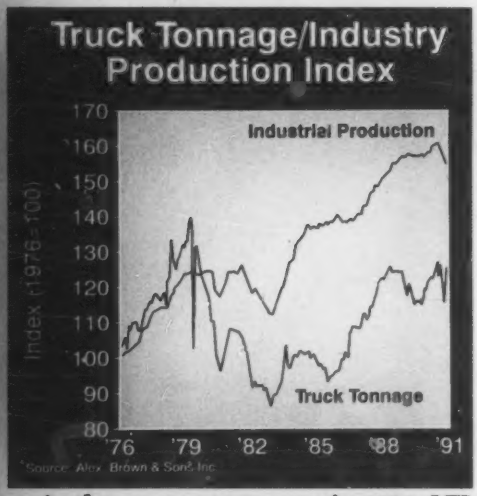
Rank	Carrier	1990 Revenue	1989 Revenue	% Change	1990 NI	1989 NI	% Change	1990 OR	1989 OR	Change
1.	Central Freight	226.42	213.26	+6.17	5.38	7.36	-26.85	96.50	94.60	-1.90
2.	AAA Cooper	157.86	136.38	+15.76	9.90	5.14	+92.66	89.40	90.10	+0.70
3.	Southeastern	154.42	129.39	+19.35	14.41	10.37	+38.93	90.60	91.80	+1.20
4.	Averitt Express	142.66	113.10	+26.13	3.64	3.86	-5.83	93.90	92.90	-1.00
5.	Merchants Fast Freight	102.93	99.78	+3.15	0.53	0.90	-40.91	98.90	98.60	-0.30
6.	Saia	102.55	85.62	+19.78	5.41	3.65	+48.17	86.10	86.20	+0.10
7.	Transus	80.37	70.54	+13.94	1.17	8.95	-86.93	98.70	99.50	+0.80
8.	Spartan Express	78.60	69.58	+12.95	-3.84	-6.26	+38.69	104.30	110.90	+6.60
9.	Standard Trucking	58.47	47.21	+23.86	0.41	0.13	+217.97	97.50	98.10	+0.60
10.	Smalley	51.97	49.74	+4.49	-1.12	-1.17	+4.53	100.59	101.69	+1.10
11.	Armellini Express	51.06	47.73	+6.98	0.75	1.24	-39.94	96.70	95.50	-1.20

Key: NI = net income; OR = operating ratio
Source: ICC

WESTERN & ROCKY MOUNTAIN LTL CARRIERS — 1990 vs. 1989 (Millions of Dollars)

Rank	Carrier	1990 Revenue	1989 Revenue	% Change	1990 NI	1989 NI	% Change	1990 OR	1989 OR	Change
1.	Viking Freight	223.95	199.81	+12.08	9.08	10.96	-17.22	90.80	88.90	-1.90
2.	G.I. Trucking	103.82	84.26	+23.21	1.57	-0.25	NM	94.70	97.10	+2.40
3.	Willig	81.37	79.21	+2.72	0.20	1.66	-87.76	95.60	93.80	-1.80
4.	TNT Bestway	60.40	54.25	+11.34	1.77	2.85	-38.02	94.20	89.98	-4.22
5.	Lynden	46.69	48.37	-3.47	2.30	2.79	-17.44	92.30	91.10	-1.20

No data available for DiSalvo Trucking.
Key: NI = net income; OR = operating ratio; NM = not meaningful
Source: ICC



As the economy recovers in 1991, LTL tonnage and margins will rebound.

Robertson, who sees regional and interregional LTL carriers with long lengths of haul as highly vulnerable to competition from national LTL carriers, TL carriers and even intermodal carriers.

"Being caught between the long-haul big guys and the short-haul regionals is a very dangerous place to be," says Robertson. He sees many interregional and regional LTL carriers rapidly restructuring themselves to have lengths of haul under 600 miles.

For the rest of the LTL industry, especially the large national carriers, Robertson has seen a gradual strategic shift away from increasing market share to improving operating margins. This change in strategy began in 1988 when the new Teamster contract removed wage differentials. Since 1985, LTL carriers have had a two-tier wage structure whereby they could hire new Teamster workers at 70 percent of the full scale. With labor accounting for two-thirds of LTL costs, the availability of cheap incremental labor encouraged LTL carriers to expand rapidly and to heat up competition in the LTL marketplace. The 1988 contract removed carriers' incentive to add new employees and encouraged them to manage their costs better.

"LTL carriers now have earnings that are highly correlated with growth in the domestic industrial economy." says Robertson. "LTL trucking is now a cyclical industry driven purely by economic activity. For example, in the first quarter the *Business Week* production index dropped three points and operating margins for LTL carriers dropped two points."

In their search for operating efficiency, LTL carriers are increasingly looking for ways to improve their internal operations, says Robertson.

"The action now is in the back office with technologies that will reduce transaction costs, improve billing accuracy, and allow better cost identification," he says. "This is the last productivity frontier." ■

TNT HOLLAND BLOSSOMS BY DOING THE BASICS RIGHT

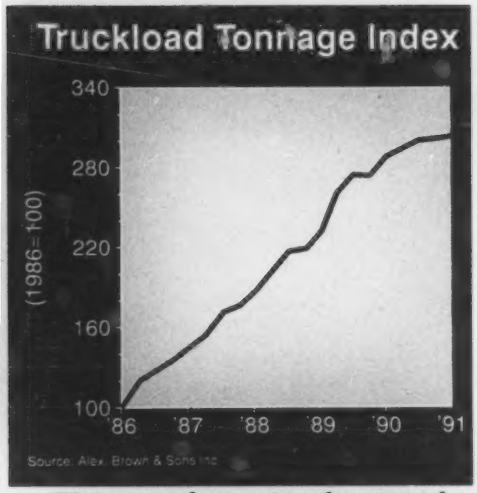
Back in the late-1970s, the management team at Holland Motor Express formulated a strategic plan that was to serve it well during the turbulence of deregulation. The plan worked so well that in 1983, Holland's operating ratio dipped below 90 for the first time—a feat that would be repeated many times.

This performance attracted the attention of TNT North America, the U.S. arm of the giant Australian transport firm, which was looking for strong regional carriers to anchor its foray into the U.S. TNT acquired Holland in 1984 and left the management team and the strategic plan in place.

The underpinnings of that plan include controlled expansion and an ongoing push to reduce operating costs. So the Holland, Mich.-based carrier expanded into key markets in the central U.S., using its own people and its own equipment. It also acquired intrastate authority in all the states it services. "We wanted to be the 'total carrier,' whether the shipper wanted to go across town, across the state or across the country," says Michael J. Gorno, who was president of Holland when TNT acquired it and continues to hold the position today.

To control costs, Holland concentrates on the basics. Its safety record keeps Holland's insurance costs among the lowest in the industry. Its claims process is consistently recognized as one of the best in trucking. A $250 million carrier, Holland has no regions or districts; it works hard to keep the organization flat. Overhead is low too. Gorno figures other carriers would need at least 10 more terminals to handle the volume of business Holland does with 39.

TNT Holland installed a new computer system, it uses bar coding to track shipments and it's doing EDI with key customers. Yet the carrier remains committed to investing in things that will give it a service advantage. Gorno cites carriers that are out of business today even though they had sophisticated computer systems. "It's because they didn't do the basics right," he says.



TL tonnage boomed in the 1980s, but growth is flattening in the 1990s.

TL Shakeout To Shake Up Rates

The boom days for TL carriers ended in 1990, but carriers that can hang on see the prospect of higher rates as capacity shrinks in most sectors.

By Thomas A. Foster, Esq., Editorial Director

Last year marked the end of a booming decade for the truckload industry. Revenue increased nicely for the leading TL carriers in 1990, but the increases were modest compared to the 30 or 40 percent gains these carriers enjoyed throughout most of the 1980s. Profits for the TL industry as a whole increased 25 percent in 1990, but the more leveraged carriers began to see their profits fall dramatically. Clearly the rest of 1990s will be a very different decade for the $200 billion TL industry.

According to John Larkin, an analyst with the Baltimore brokerage firm of Alex. Brown & Sons, the days of growing by expanding capacity and a customer base as fast as possible are gone.

The great changes are happening in the high-density, long-haul mar-

continued

SCHNEIDER NATIONAL QUIETLY LEADS THE TL MARKET

Donald J. Schneider is a quiet man who tries to keep a low profile for himself and his company—Schneider National. But with 6,700 tractors and 14,600 trailers, all bright orange and bearing his name, keeping a low profile is difficult. Schneider National is the nation's largest truckload carrier, and has grown an average of 14.5 percent since 1980, when revenues were about $215 million. Revenues in 1990 from its TL, tank, flatbed divisions amount to $796 million, nearly a 20 percent increase over 1989. Total revenue for the company, which also is into information systems, satellite communications and electronic data interchange, was $832 million in 1990.

Don Schneider attributes his company's growth to the fact that "more shippers are looking at their operations as a supply chain and are more concerned with quality and true carrier partnerships than ever before."

Schneider pioneered the use of satellite vehicle tracking several years ago by investing $40 million in Qualcomm's Omnitrac technology. The TL carrier actively markets its satellite tracking capability to shippers under the name StarServe, which Don Schneider says offers shippers many service advantages. "If a shipper needs a truck quickly, StarServe will dispatch a vehicle on the highway immediately."

Don Schneider says the 1990s will be different from the 1980s, which emphasized revenue growth. "We are developing software that will enable us to integrate our services with our customers' operations. If we both can look at the whole sytstem, we can eliminate the bottlenecks."

Schneider also sees deregulation and elimination of unnecessary government bureaucracy as important productivity challenges for the 1990s. "We have to communicate to Congress the dramatic improvements made in the 1980s and the need for similar productivity-enabling legislation for the 1990s," says Schneider.

ket, which according to Larkin is saturated with low-cost truck equipment and double-stack containers.

"No smart TL carriers are adding equipment these days," says Larkin. "Most long-haul carriers are just trying to survive the recession as best they can and position themselves for the next spurt of economic growth."

Larkin says he is surprised by how few carriers have gone out of business in the last year. "With the weak economy, fuel price hikes, and shortages of capital, I would have expected more carriers to call it quits," he says. He does expect the consolidation to continue, mainly because lenders have decided not to renew loans with weaker TL carriers.

"This credit crunch comes at a time when carriers most need cash to finance licensing, permitting, extra maintenance and other expenses," he says.

Larkin points to other financial pressures that could force weaker TL carriers out of business in the months ahead. Insurance companies are doing a better job of screening carriers' risk management and safety programs. The good carriers will pay significantly lower rates than carriers with poor safety records.

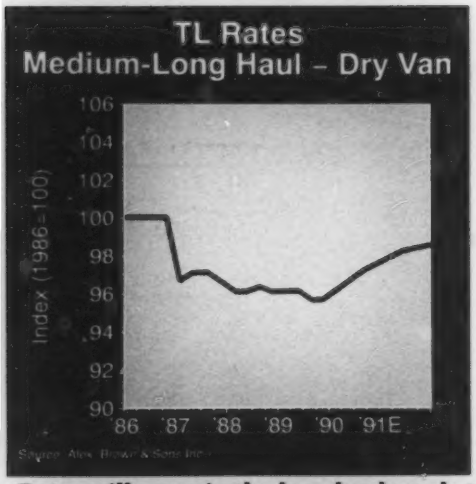
Shippers are also taking their toll on the number of TL carriers. "The

continued

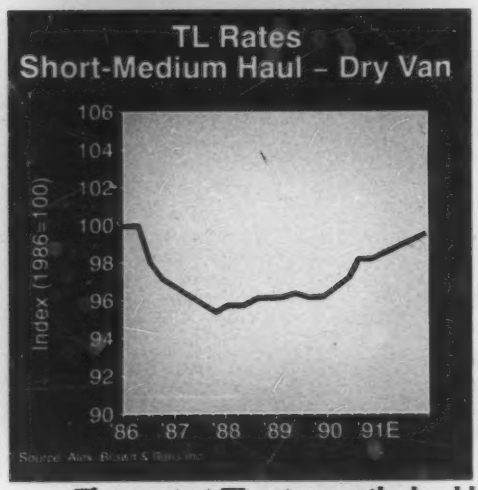
TOP 50 GENERAL COMMODITY TL CARRIERS — 1990 vs. 1989
(Millions of Dollars)

Rank	Carrier	Type	1990 Revenue	1989 Revenue	% Change	1990 NI	1989 NI	% Change	1990 OR	1989 OR	Change
1.	Schneider National	V,B,FB	796.36	665.82	+19.61	NA	NA	NA	NA	NA	—
2.	J.B. Hunt	V,FB	579.83	509.28	+13.85	30.05	30.62	-1.85	90.20	87.90	-2.30
3.	Ryder Distribution	V	314.73	281.50	+11.81	6.09	-4.47	NM	96.40	101.60	+5.20
4.	Werner Enterprises	V	251.58	191.44	+31.41	16.78	16.07	+4.42	89.20	87.40	-1.80
5.	Builders Transport	V,FB	240.76	228.23	+5.49	-10.70	-2.28	-369.30	97.40	98.20	+0.80
6.	Ranger	V	228.45	203.24	+12.40	2.60	5.47	-52.52	96.40	97.30	+0.90
7.	MNX	V	198.92	123.59	+60.96	0.22	-7.35	NM	98.20	106.20	+8.00
8.	Swift	V	156.33	123.71	+26.37	6.66	3.01	+121.26	90.10	91.20	+1.10
9.	Inway	V	154.88	145.45	+6.48	0.25	1.92	-87.21	96.10	96.40	+0.30
10.	National Freight	V	136.47	131.09	+4.10	-0.95	-1.36	+29.67	98.90	95.50	-3.40
11.	Ace Transportation	V	134.06	96.68	+38.67	1.04	2.04	-48.85	96.10	97.40	+1.30
12.	Crete Carriers	V	131.37	109.88	+19.56	7.57	4.49	+68.51	94.60	96.90	+2.30
13.	KLLM	R	125.76	115.75	+8.65	2.77	1.39	+99.28	92.70	94.20	+1.50
14.	M.S. Carriers	V	123.58	96.81	+27.65	6.38	8.32	-23.32	89.40	84.10	-5.30
15.	CRST, Inc.	V,FB	119.35	NA	NA	NA	NA	NA	NA	NA	NA
16.	Tri-State	V	117.35	104.80	+11.97	0.91	0.18	+422.29	95.10	98.50	+3.40
17.	Stoops	V	113.51	104.03	+9.11	0.98	2.64	-62.88	96.00	98.30	+2.30
18.	Anderson	V	113.20	103.41	+9.47	2.33	2.66	-12.37	95.20	94.40	-0.80
19.	Poole	V	110.73	104.52	+5.95	-0.09	-3.83	+97.76	96.70	99.50	+2.80
20.	Munson	V	107.85	99.65	+8.23	-0.68	0.28	NM	95.70	95.50	-0.20
21.	Universal Am-Can	V	105.81	87.82	+20.48	0.43	3.52	-87.91	98.70	94.80	-3.90
22.	Ligon	V,FB	104.86	87.97	+19.19	0.01	0.18	-96.02	97.70	96.80	-0.90
23.	New Prime	V	98.63	76.60	+25.49	3.43	5.33	-35.65	92.60	89.40	-3.20
24.	Dart	V	97.21	90.83	+7.03	1.91	3.35	-42.96	95.10	93.40	-1.70
25.	C.R. England & Son	R,V	97.19	73.88	+31.55	3.73	2.41	+55.11	92.60	93.90	+1.30
26.	Roberts Express	E	92.42	78.39	+17.89	7.08	6.43	+10.09	88.30	87.60	-0.70
27.	Mercer Transportation	V	88.31	75.61	+16.80	3.33	3.45	-3.48	96.00	95.30	-0.70
28.	Freymiller	V,R	86.09	69.15	+24.49	2.05	1.80	+13.88	90.60	90.90	+0.30
29.	Roadrunner	V	82.79	81.06	+2.14	0.96	2.00	-52.30	96.00	94.60	-1.40
30.	Marten	V	81.35	73.31	+10.96	1.79	-1.40	NM	93.40	98.90	+5.50
31.	Mid West Coast	V	79.26	68.00	+16.55	1.54	1.58	-2.78	96.30	95.80	-0.50
32.	National Carriers	R	76.25	73.02	+4.42	1.17	1.12	+4.00	96.00	95.94	-0.06
33.	Jack Gray	V	74.53	77.79	-4.19	3.27	5.83	-44.02	97.00	92.40	-4.60
34.	Malone Freight	V,FB	70.99	63.67	+11.49	0.32	0.65	-51.16	99.50	98.70	-0.80
35.	Jones Motor	FB	64.89	62.15	+4.40	-0.69	0.73	NM	101.60	99.60	-2.00
36.	PST	V,E	64.50	58.64	+10.00	-3.74	-0.31	-1118.89	102.30	95.30	-7.00
37.	McGil	V	64.02	60.80	+5.30	-1.27	0.13	NM	100.73	98.16	-2.57
38.	Willis Shaw	V,R	63.83	57.09	+11.81	2.58	2.96	-12.71	90.60	89.60	-1.00
39.	Heartland	V	62.81	48.30	+30.04	1.22	0.78	+57.42	97.40	97.50	+0.10
40.	Acme Truck Line	FB	61.12	45.27	+35.02	1.83	1.18	+54.95	96.80	97.50	+0.70
41.	Alterman	R	58.62	54.27	+8.00	-1.81	-1.44	-25.21	100.00	99.20	-0.80
42.	Southwestern	V	57.87	56.97	+1.58	0.91	0.96	-5.09	97.60	97.60	—
43.	PAM	V	57.69	70.12	-17.73	5.27	6.84	-23.00	97.30	107.40	+10.10
44.	Pre Fab Transit	V,FB	57.06	56.87	+0.33	1.66	1.20	+37.80	99.00	96.70	-2.30
45.	Deaton	V	54.37	52.37	+3.82	-0.35	-1.26	+72.19	99.30	101.90	+2.60
46.	TLC Lines	V	50.65	51.62	-1.86	0.01	0.76	-98.29	98.10	96.70	-1.40
47.	Commercial Carrier	V	50.30	51.51	-2.36	1.91	3.24	-41.15	89.20	84.80	-4.40
48.	McClendon	V	50.06	45.17	+10.18	3.17	1.03	+207.46	91.00	93.32	+2.32
49.	Eck Miller	V	48.99	57.71	-15.12	1.67	-3.87	NM	96.70	106.60	+9.90
50.	Gemini	V	45.59	90.16	-49.44	-1.28	2.61	NM	NA	97.10	+97.10

Financial figures unavailable for several large carriers including Contract Freighters and Carretta Trucking.
Key: NI = net income; OR = operating ratio; NA = not available; NM = not meaningful; V = dry van; R = reefer or temperature controlled; FB = flatbed; B = bulk; E = expedited/critical shipment
Source: ICC and individual carriers



Rates will grow in the long-haul market if capacity is taken out of the system.



The greatest TL rate growth should be in the short-haul market.

core carrier concept focuses shipper attention on well-capitalized carriers, leaving only overflow traffic for the weaker carriers," says Larkin.

Finally, the driver shortage will have its greatest impact on the weaker TL carriers, according to Larkin. "With recent improvements in the compensation packages offered by many of the larger, better capitalized carriers, experienced drivers are drifting away from small carriers toward the larger ones," says Larkin. "This further increases the expenditures necessary by the small carriers to recruit adequate numbers of people and makes it difficult to maintain quality standards."

But all is not doom and gloom for the TL industry, he says.

Larkin sees the possibility of significant rate movement as the economy strengthens. "With the larger TL carriers holding back on adding capacity, prices will remain firm, and as the economy strengthens, it is possible that our country could witness for the first time in many years a capacity shortage in the TL industry," says Larkin. "This could set the stage for some interesting price increases that have been needed for years."

Larkin says some "enlightened shippers" are granting their TL carriers two to four percent rate increases now in exchange for guarantees of equipment and service availability next year when capacity shortages could show up.

Larkin also sees a trend toward diversification among TL carriers into niche operations such as temperature-controlled and flatbed hauling. He points out that some carriers are looking at such non-traditional growth areas as airfreight, leasing and even packaging.

The TL market for short-haul and specialized carriers is growing rapidly, according to Larkin, who says the growth stems primarily from shippers converting from private fleets. "These shippers want high-service, dedicated carriage," says Larkin. "This is an untapped market for sophisticated carriers that can handle complex dispatching and equipment scheduling.

"Only about five to 10 carriers have the systems and management depth that would allow diversification," he says. "But that may not stop others from trying."

Tank Truck Carriers

A quick look at 1990 tank carrier revenues indicates business was fairly good last year. But according to Cliff Harvison, executive director, National Tank Truck Carriers Conference, the numbers don't tell the true story.

"The prime source of revenue growth last year was merger and consolidation, not new traffic," he says ruefully. "The tank industry has had several tough years, and the future does not look much better."

Harvison says the most significant event in 1990 was the implementation of Department of Transporta-

continued

TOP 12 TANK TRUCK CARRIERS — 1990 vs. 1989
(Millions of Dollars)

Rank	Carrier	1990 Revenue	1989 Revenue	% Change	1990 NI	1989 NI	% Change	1990 OR	1989 OR	Change
1.	Bulk Materials	261.60	241.00	+8.55	NA	NA	NA	NA	NA	NA
2.	Matlack	216.88	214.49	+1.11	0.67	-0.19	NM	96.60	98.94	+2.34
3.	Chemical Leaman	210.87	207.36	+1.69	1.10	-0.58	NM	97.70	97.34	-0.36
4.	Montgomery Tank Lines	126.56	105.52	+19.94	2.08	3.12	-33.27	91.10	91.10	—
5.	Trimac Transport	98.01	80.21	+22.19	NA	NA	NA	95.40	95.20	-0.20
6.	Groendyke Transport	84.46	78.15	+8.07	2.10	1.47	+43.52	95.80	96.40	+0.60
7.	DSI Transports	76.49	72.33	+5.75	3.81	2.04	+86.78	91.60	91.50	-0.10
8.	Miller Transporters	75.93	70.30	+8.01	-0.22	-1.84	+87.88	98.20	101.50	+3.30
9.	Central Transport (NC)	57.53	51.09	+12.61	NA	1.08	NA	95.80	93.65	-2.15
10.	Jack Kelly	57.38	54.27	+5.73	-0.20	-0.05	NM	99.30	100.30	+1.00
11.	Schwerman Trucking	52.18	49.45	+5.52	NA	0.52	NA	97.60	96.86	-0.74
12.	McKenzie Tank Lines	48.57	51.86	-6.34	NA	2.86	NA	99.50	94.10	-5.40

No data available for Koch Service.
Key: NI = net income; OR = operating ratio; NM = not meaningful; NA = not available
Source: ICC and carrier supplied information

TL GROWTH OPPORTUNITIES ($ in billions)

DISTRIBUTION-ORIENTED BUSINESS

Segment	Market Size
Warehouses/Transloading	$10-$12
Local Cartage	$1-$2
Packaging	Huge
Modal Transfer	$1/2-$1

ASSET DRIVEN BUSINESSES

Segment	Market Size
Regional LTL	$5
Airfreight	$10+
Equipment Leasing	$10+
Equipment Manufacturing	$10+

GEOGRAPHIC EXPANSION

Segment	Market Size
Canada	$5-$10
Mexico	$2-$5
Europe	$10-$20

INFORMATION-BASED BUSINESSES

Segment	Market Size
Load Brokerage	$1-$2
Customs Brokerage	$1-$2
Freight Forwarding	$1-$2
EDI for Other Carriers	<$1
Software Development for Other Carriers	<$100 million

Source: Alex. Brown & Sons Inc.

tion regulation HM-183, which rewrote the rule book for maintenance of tanks for hazardous commodities. "We supported this regulation because it was needed to establish safety standards, but it will add about 30 percent to the cost of maintaining tank trailers," says Harvison.

He points out that HM-183 may even have an unintended upside for the tank carrier industry. "The regulation may drive many older tank trailers out of the system because it will become too costly to maintain them," says Harvison. "With less tank trailer capacity available, carriers may finally have an opportunity to raise rates."

Harvison says regulations being developed to implement the Safe Food Transportation Act will also have a tremendous impact on the tank truck industry. "Depending on how restrictive these new regulations are, tank carriers could suddenly be faced with many empty miles for their food-grade equipment," says Harvison. "If utilization falls dramatically, the carriers' operating margins will go down with it."

The fundamental problem in the tank truck industry is the inability of carriers to raise rates as costs increase. "Relatively few large chemical shippers are the customer base for the entire tank truck industry, and they call the shots when it comes to rates."

Tough Market for HHG Carriers

"Last year was not a good profit year for the household goods carrier industry, but at least the traffic was there," says Joe Harrison, president of the Household Goods Carriers' Bureau. "But in 1991, the business just hasn't been there at all. The stagnating real estate market has cut back corporate moves. The Persian Gulf war dried up military household moves from November until April of 1991. For small HHG carriers military moves can be half their business. For the larger carriers it is eight to 12 percent."

The lack of traffic is not the only problem facing the HHG industry, however. Many household goods carriers have become highly leveraged in the last few years. "Even if our industry can increase revenues," Harrison says, "interest costs will keep profits low."

The industry is hopeful an economic resurgence will come in the third quarter to extend the summer season. "We get half our revenue between May and September," says Harrison. "We are hopeful this moving season will go into October."

Harrison does not see significant opportunities for HHG carriers in terms of getting more of the general freight business. "Very few HHG carriers have been successful in taking freight away from traditional general commodity haulers," he says. The

HOUSEHOLD GOODS (Trucking Revenue

Rank	Carrier	1990 Total Trucking Revenue	1989 Total Trucking Revenue	% of Change	1990 NI	1989 NI	% of Change	1990 Total OR	1989 Total OR	% of Change
1.	North American Van Lines	775.65	792.19	-2.09	-9.05	-5.95	-52.26	102.00	100.00	-2.00
2.	United Van Lines	473.50	468.02	+1.17	0.51	1.89	-73.05	99.60	99.20	-0.40
3.	Allied Van Lines	398.58	405.97	-1.82	5.21	6.08	-14.43	98.60	97.50	-1.10
4.	Mayflower Transit	310.48	320.77	-3.21	1.95	11.14	-82.45	99.00	97.50	-1.50
5.	Atlas Van Lines	216.68	216.68	—	2.58	1.55	+66.54	93.10	93.00	-0.10
6.	Bekins Van Lines	212.70	210.89	+0.86	3.19	2.96	-7.73	98.00	97.80	-0.20
7.	Graebel Van Lines	96.76	84.15	+14.99	1.19	0.64	+85.49	97.60	98.60	+1.00
8.	Burnham Services*	92.51	93.33	-0.87	1.83	4.40	-58.48	96.70	94.50	-2.20
9.	Global Van Lines	56.87	60.76	-6.40	0.19	0.74	-74.26	98.20	98.10	-0.10
10.	Paul Arpin Van Lines	55.47	50.65	+9.52	0.65	1.16	-44.08	99.00	97.90	-1.10
11.	Wheaton Van Lines	47.79	47.15	+1.36	0.09	0.30	-70.96	100.30	99.40	-0.90
12.	New World Van Lines	40.90	37.42	+9.31	2.10	1.28	+64.63	94.00	95.80	+1.80
13.	National Van Lines	32.68	31.75	+2.90	0.21	-0.47	NM	97.90	99.90	+2.00
14.	American Red Ball Van Line	24.88	24.70	+0.72	0.17	-0.20	+184.62	98.90	100.70	+1.80

***Burnham now earns the majority of its revenue from logistics services not reported to the ICC or on this summary.**
Key: NI = net income; OR = operating ratio; NM = not meaningful
Source: ICC and carrier reports

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MARKET SIZE OF TRUCKLOAD SEGMENTS ($ in billions)

SEGMENT	MARKET SIZE
National Dry Van	$10-$15
Regional Dry Van	$15-$20
Temperature Controlled	$3
Flats	$3
Tanks	$3
Specialized	$2

best diversification opportunities for HHG, according to Harrison, are in sectors such as electronics, where the industry already has a strong foothold. "If HHG carriers are to grow, they are going to have to search out additional niches such as office furniture, intrastate hauls and storage," Harrison says.

The first quarter of 1991 was the worst first quarter the HHG industry experienced in eight years, but Harrison sees some signs of hope. "Leading economic indicators rose in March and April, and the housing market is recovering," he says. "Housing starts in April rose by 6.2 percent, building permits rose by 3 percent and the sale of existing homes by 3.4 percent." ■

ARRIERS — 1990 vs. 1989 (millions of dollars)

1990 HHG Revenue	1989 HHG Revenue	% of Change	1990 HHG OR	1989 HHG OR	% of Change
54[illegible].24	559.46	-1.83	96.60	95.40	-1.20
45[illegible].34	452.75	+1.01	97.70	98.00	+0.30
39[illegible].58	405.97	-1.82	98.60	97.50	-1.10
30[illegible].89	320.45	-4.54	98.20	97.20	-1.00
21[illegible].67	203.10	+3.72	93.30	93.10	-0.20
20[illegible].79	202.15	+0.07	98.10	98.00	-0.10
9[illegible].76	84.15	+14.99	97.60	98.60	+1.00
9[illegible].71	93.33	-0.87	96.70	94.50	-2.20
5[illegible].17	60.76	-6.40	98.20	98.10	-0.10
5[illegible].17	50.65	+9.52	99.00	97.90	-1.10
4[illegible].[illegible]	47.15	+1.36	100.30	99.40	-0.90
4[illegible].[illegible]	37.42	+9.31	94.00	95.60	+1.60
3[illegible].[illegible]	31.75	+2.90	97.90	99.90	+2.00
2[illegible].[illegible]	24.70	+0.72	98.90	100.70	+1.80

TOP HHG FINANCIAL PERFORMANCE 1990 vs. 1989

	1990	1989	% Change
Operating Revenues	$2,584,212	$2,587,913	-0.1
Net Carrier Operating Income	69,001	81,700	-15.5
Net Income/(Loss)	20,613	31,239	-34.0
Revenue Tons Hauled	3,908	4,014	-2.6

Source: ICC

Pricing continued its incremental climb, helped along by a capacity squeeze.

Air Cargo Growth Is Grounded

Recession, high fuel prices and the Gulf war hurt air carriers in 1990, leaving many financially weak. The survivors, though, are poised to grow.

By Richard Malkin, Air Cargo Editor

Preliminary results for the U.S. air cargo industry clearly reflect an economy hit by recession and the high cost of fuel. Last year the U.S. scheduled airline industry legged 12,130,952,000 cargo ton-miles (freight, 10,179,648,000; mail, 1,951,304,000) for a meager 2.5 percent increase over the previous year. International shipments represented 52 percent of this volume, domestic 48 percent.

The U.S. moved into 1991 downside also, with Persian Gulf-related woes added to the continuing recession, though Washington claimed to see brightening economic skies by the summer. The first quarter showed 2.2 percent and 6.4 percent declines in freight and mail ton-miles, respectively. A 5.9 percent drop in domestic cargo overwhelmed a 1.6 percent rise in international freight.

American Airlines continued to impress in its drive to reclaim from the integrated operators a sizable portion of domestic cargo traffic. In 1990, American legged 1.1 billion cargo ton-miles, an increase of 18.4 percent over the previous year. Cargo revenue rose 18.6 percent to $428.9 million.

Underscoring the airline's restored seriousness about cargo was the decision to elevate its cargo business to a separate operating division, with William R. Boesch as president.

United Airlines wound up the year with a 13.7 percent jump in cargo revenue, to $592,872,000. American and United, along with Delta Airlines (1990 revenue, $432.5 million, up 6.1 percent) are regarded as the surest survivors among the combination carriers. American and United have been further strengthened by their acquisition of London routes.

Northwest Airlines, the only U.S. combination air carrier with freighters in its fleet—all eight B747s are in transpacific service—is identified by Wall Street analysts as another survivor, though less shielded from the effects of a prolonged recession.

The rest of the field remains in varying degrees of financial distress. Eastern Airlines shifted from Chapter 11 to Chapter 7 liquidation while Midway Airlines, unable to absorb its big losses, reached for Chapter 11 protection. Two air cargo giants of yesteryear, Pan Am (which is bankrupt) and Trans World Airlines (which threatened bankruptcy if its sale of London routes to American was upset), remain troubled. Continental Airlines, another inhabitant of Chapter 11, is in similar difficulty, but industry observers believe it has a better chance for survival than the former two.

Neither the International Air Transport Association nor the International Civil Aviation Organization had completed its report on 1990 air traffic results in time to accommodate this special report. However, it was learned from reliable sources that the IATA member carriers last year legged slightly more than 22 billion freight ton-kilometers, a decline of .09 percent from 1989.

Although IATA has yet to release the relative standings of its 200-plus

continued

U.S. AIR CARRIER TRAFFIC AT LEADING U.S. AIRPORTS—1990

Cargo Tons Enplaned	
Chicago O'Hare	381,825
Los Angeles	371,650
Memphis	331,584
New York (JFK)	315,618
Anchorage	289,925
San Francisco	245,206
Atlanta	243,248
Dallas/Ft. Worth	212,259
Miami	190,186
Honolulu	153,935
Newark	149,149
Boston	136,626
Seattle	125,515
Minneapolis/St. Paul	97,250
Denver	95,117
Philadelphia	83,761
St. Louis	81,729
Houston	75,533
Detroit	69,005
Indianapolis	67,933

Source: Air Transport Assn.

Revenue ton-miles grew slightly in 1990 but fell off in the first quarter of 1991.

member airlines, it is known that the traditional leaders among the foreign flag carriers—Lufthansa, JAL, Air France, KLM, British Airways, Korean, Swissair, Alitalia, etc.—are well up in the list, along with Federal Express, Northwest and United.

Pricing of international air cargo continued its incremental climb, helped along by a capacity squeeze. But cargo officials claim that rates have yet to reach a fully compensatory level, and in a negotiated deal between carrier and volume shipper/forwarder, no one knows how much of an increase may be ignored.

Integrators Have Their Day

One basic fact of the 1990s is that America's domestic air cargo transportation system is overwhelmingly served by freighters—a dramatic turnabout from a decade earlier when the passenger belly was unthreatened king. This is the direct result of the mushrooming of the integrator, led by Fed Ex (which has acquired Flying Tiger), United Parcel Service and Airborne Freight Corp.

Consider that Fed Ex operates a freighter fleet of 414 units, 54 of which are leased; UPS owns 162 cargo planes, and charters an additional 251; and Airborne's fleet, with new freighters scheduled for 1991 delivery, will reach 70.

Fed Ex, which in fiscal 1990 earned $115.7 million on a little over $7 billion revenues, remains tops in the domestic market but has run into trouble in the international sector. In its latest fiscal year, it reported an operating loss of $196 million on $2.2 billion in international revenues. The company does not expect a turnaround in the international market before fiscal 1993.

As a result, Fed Ex has downsized its services in the soft Pacific market, though it is reportedly holding to its goal of direct service to 196 cities worldwide by the end of this sum-

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FREIGHT AND EXPRESS YIELD
(Revenue per ton mile ¢)

	1980*	1989	1990
Domestic	48.6	95.0	64.0
International	36.5	41.1	39.3
Total	43.5	67.2	51.4

***Does not include Federal Express**
Source: Air Transport Assn.

mer. Fed Ex's faith in its international future is further underscored by its participation in tests of U.S. Custom's Automated Commercial System, whereby airfreight import data is transmitted to Customs. The success of these tests has led to Fed Ex's expanded use of the system as it becomes available at a growing number of gateways.

In the Memphis-based carrier's dominant interstate business, it has followed up its two-day service for shipments weighing up to 1,500 pounds with a new service specifically designed to attract single pieces in the 150- to 500-lb. range. Next-day delivery is by noon or 4 p.m., depending on the destination.

UPS registered a 10 percent increase in revenues, to $13.6 billion, in 1990. Its volume of parcels and documents advanced 3 percent to 2.85 billion pieces; however, the airborne portion (189 million pieces) represents a 14 percent jump from the year before.

Last fall, UPS moved into closer competition with its principal rival, Fed Ex, when it introduced guaranteed 10:30 a.m. delivery of shipments in its Next-Day Air service. Over 70 percent of the nation was covered by the money-back guarantee under this time-specific service. The same guarantee was extended to an additional 15 percent with a "before noon" deadline; and to the remainder, an "end of the business day" promise. There is little question that UPS's 26 percent slice of a $9 billion-plus U.S. air express market is overshadowed by Fed Ex's 48 percent share, but it is apparently on a purposeful catch-up course. It is concentrating on service refinements and pricing incentives.

Operating in the domestic market as Airborne Express, Airborne Freight last year passed the $1 billion mark in total revenues ($1.182 bil-

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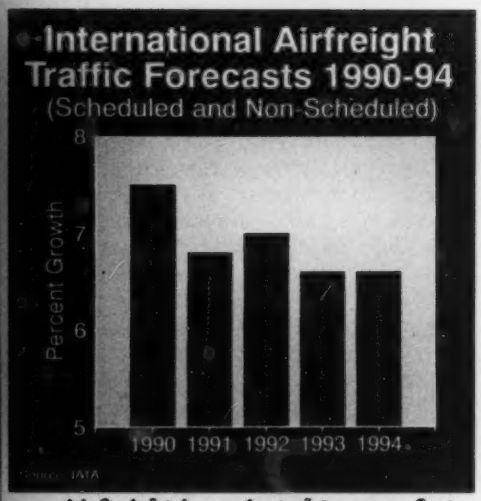

Airfreight is projected to grow faster internationally than domestically.

lion) for the first time. Eighty-three percent of those revenues were derived from domestic air express activities which showed a remarkable 30.6 percent gain over 1989; the remainder was drawn from international air forwarding, which grew a marginal 1 percent. Airborne's rate of growth, however, exceeds that of Fed Ex and UPS.

Emery Worldwide has been wracked by grievous losses ($97.4 million in 1989, followed by $128 million in 1990). Place these losses at the door of competitive pricing, higher fuel costs and the recession. In an attempt to swim out of the sea of red ink, the struggling integrator has redeployed its freighters, reduced the work force and reportedly shifted its attention to heavier shipments. Emery's bottom line has been helped by expanded services for the U.S. Postal System and participation in the Civil Reserve Air Fleet in support of Desert Shield and Desert Storm.

The Air Courier Conference of America (ACCA) says that many of its member companies have successfully coped with the recession by diversifying beyond documents and small parcels into the freight field. Others have turned to warehousing, inventory distribution, trucking and even consulting.

ACCA also won an important case before the U.S. Supreme Court when a unanimous decision rejected arguments by two postal workers' unions that private-sector competition with international mail was in conflict with U.S. Postal Service regulations.

In fact, remail (a misnomer for courier-sorted mail destined for international carriage and mailing from appropriate post offices abroad) has shown impressive growth because it offers corporate mail users speedier service at lower rates.

The European airlines have also been progressive in developing international small-package express services. British Airways and Air France have given their transatlantic products an extra flair with use of the supersonic Concorde.

continued

AT AEI, SMART PRICING = SNAPPY PROFITS

Guenter Rohrmann, president and CEO of Air Express International, has some very specific ideas about what makes a successful freight forwarder. Foremost among them is turning a profit.

"When it comes to rates," he says, "we realize that we are dealing with some crazy competitors out there. Some have no idea what they are doing." He's particularly critical of other forwarders who, during the Persian Gulf war, lowered their rates even though capacity was at a minimum and rates were soaring.

"They did it just to increase market share," says Rohrmann. "At AEI we are looking for profitable revenues, not just market share. Rohrmann believes that stable pricing is vital to a forwarder's success. I firmly believe that shippers want acceptable and stable rates. You can't have your pricing going up and down like a yo-yo."

So far, the plan seeems to be working. AEI is emerging as one of the strongest and most profitable airfreight forwarders in the business. First quarter earnings in 1991 were up 47 percent over the previous year, annual sales have topped $568 million and operations are running more smoothly now that the company has completely integrated Pandair Freight Inc., which it acquired in 1987.

AEI's strategy for success is relatively straightforward. The company is determined to maintain stable prices, backed with useful, value-added services. It has invested more than $5 million in information systems, which includes direct on-line linkage with British Airways, Federal Express, United Airlines, American Airlines, and soon, Lufthansa. Its custom-designed software enables customers to track individual shipments through their own PCs.

Still, profit remains the motivating force, And one of the critical precepts of AEI's management philosophy is to only move freight at a profit. "If you just go after revenue, or market share," says Rohrmann, "you will end up losing money. We may once in a while take a loss on a lane segment, but overall, we won't continue to move freight at a loss."

The Gulf war and the recession combined to give the airlines a rough start in 1991.

Overall, growth in the small package business continues to outstrip that for freight. Part of this may be explained by the fact that the "hard freight" base was established at least 30 years before the air couriers even became an industry. According to a Colography Group study, documents grew 28 percent in a single year, despite the inroads made by fax, and parcels climbed 42 percent. Forecasts uniformly predict that service-sensitive freight, ranging from documents and small parcels to time-oriented shipments, may account for more than two-fifths of the U.S. domestic ton-miles by the year 2000.

Airfreight 2000

The process of air cargo industry change presents both challenge and promise.

Challenge resides in the readiness and astuteness with which all of the industry's elements react to more sophisticated customer demand, the stepped-up tempo of doing business, the growing influence of logistical thinking and the lengthening reach of globalizing industry.

As for promise, consider Boeing's highly regarded air cargo forecast, issued mid-1990 (before the Persian Gulf crisis). Boeing sees world air cargo (scheduled and charter freight, all types of express, and mail) averaging annual growth of 6.5 percent to the year 2000. In the first half of the 1990s, the development of new express markets is expected to heighten the pace of freight expansion, with average 7.5 percent growth. The U.S. carriers' share of the world air cargo market will decline two percentage points to 33 percent, with non-U.S. airlines accounting for the balance.

International markets will expand at a faster clip. By the turn of the century they will represent 79 percent of global activity. Transpacific freight will increase its world lead with 22 percent of the total; and the once

continued

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dominant North Atlantic, now second to the Pacific, will yield to Europe-Orient/Australia (19 percent). The North Atlantic is forecast to have an 18 percent share.

Boeing's analysts have come up with a baseline 14.49 billion tonmiles in the U.S. domestic market by mid-decade, and 18.74 billion tonmiles in 2000. This represents average annual growth of 6.1 percent in the first half of the decade, and 5.3 percent thereafter.

Is the freighter aircraft staging a comeback in the industry? Boeing's statistics say yes. In the past 20 years, the number of all-cargo aircraft of all sizes increased roughly eightfold to a total of 712. By 2000, this figure will reach 1,260, with more than one-third of the freighters produced providing over 50 metric tons capacity.

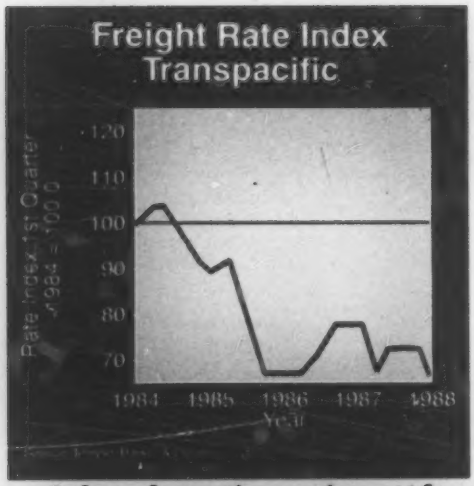
However, in the 1990s their share of world air cargo capacity will increase only one percentage point, to 41 percent. This is partly explained by the fact that, for statistical purposes, combi capacity is combined with bellyload capacity.

The airlines of the U.S. continue to be the world's leading national group in terms of scheduled freight tonmiles. Rounding out the Big Five are Japan, Germany, France and the United Kingdom. ■

AIR CARRIERS RANKED BY 1990 CARGO REVENUE
(000 Omitted)

Rank	Carrier	Cargo Revenue	Total Revenue	Cargo As % of Total Revenue	Revenue Ton Miles
1.	Federal Express	2,918,132	7,612,986	38.33	4,471,766
2.	United Parcel Service	887,656	891,090	99.61	1,641,821
3.	Northwest	691,346	7,257,113	9.53	1,874,490
4.	United Airlines	608,826	10,956,059	5.56	1,418,643
5.	American	445,820	11,008,677	4.05	1,102,185
6.	Delta Airlines	443,309	8,746,083	5.07	829,182
7.	Pan Am	267,818	3,930,722	6.81	868,640
8.	Continental	256,687	5,202,234	4.93	668,250
9.	TWA	230,539	4,606,082	5.01	659,928
10.	Evergreen	173,326	217,608	79.65	211,837
11.	U.S. Air	162,945	6,084,704	2.68	232,457
12.	Southern Air Transport	90,865	152,503	59.58	271,700
13.	Rosenbaum	78,344	81,666	95.93	690,525
14.	Connie Kalitta	74,661	75,360	99.07	136,676
15.	Alaska	71,973	1,077,065	6.68	73,290
16.	Eastern Airlines	66,856	2,181,796	3.06	142,304
17.	Zantop	63,756	75,139	84.85	70,394
18.	Arrow System	59,341	70,743	83.88	175,334
19.	World	54,001	242,386	22.28	152,953
20.	Challenge Air	51,448	54,088	95.12	121,085
21.	Markair	51,190	128,303	39.90	31,550
22.	America West	44,099	1,321,642	3.34	103,638
23.	Northern Air Cargo	37,247	37,725	98.73	20,150
24.	Florida West	27,301	34,934	78.15	138,906
25.	Amerijet System	27,035	27,500	98.31	42,975
26.	Aloha	23,397	188,852	12.39	9,694
27.	Southwest	22,741	1,186,831	1.92	20,692
28.	Midway	17,034	614,809	2.77	15,407
29.	Reeve	15,818	29,604	53.43	7,436
30.	Hawaiian	15,337	340,024	4.51	20,736
31.	Trans Continental	13,388	32,243	41.52	30,302
32.	Express One	11,729	32,378	36.23	16,940
33.	Midwest Express	4,203	125,825	3.34	6,702
34.	Trump Shuttle	3,310	172,013	1.92	50
35.	Air Wisconsin	2,659	196,649	1.35	1,004
36.	Westair	1,644	209,764	0.78	4
37.	Aspen Air	322	33,251	0.97	82
38.	MGM	321	34,652	0.93	1,841
39.	Executive	245	23,707	1.03	10
40.	Tower Air	102	172,264	0.06	6

Source: I.P. Sharpe/Reuters



Independent actions on imports from the Far East keep rates depressed.

Transatlantic rates have been showing a decline since peaking late in 1984.

Ocean Shipping Gets Rational

Many shippers believe rationalization is forcing carriers to offer generic service. Differentiation is one way carriers are breaking out of the mold.

By E.J. Muller, Senior Editor

In last year's maritime report (*Battle for market share continues,* July 1990, p. 84) we noted two key trends in ocean shipping: first, carriers were diligently trying to promote "differentiation," as a way to either maintain or increase their share of a fairly flat market. Secondly, shipping lines were increasingly using ship-sharing as a way to offset the high asset costs inherent in what's now an almost completely intermodalized business.

For some shippers, these trends seem to be at crossed purposes. "How can a carrier say he's different from a competitor if they're using the same ship, on the same schedule, calling the same port?" many wonder. Carriers respond to such concerns by asserting that "differentiation" today is realized in such things as terminal operations and information systems—not in the quality of ships.

There are those shippers, however, who see carrier's asset rationalization as anti-competitive; a perhaps dangerous step toward generic service. "If shippers are concerned about rationalization, they have no one to blame but themselves," says Hugh Randall, a vice president at Temple, Barker & Sloane and former president of CSX/Sea-Land Logistics. Randall says that fierce pricing competition in the major trade lanes finally convinced privately-held ship operators that "they couldn't earn back the cost of capital."

Is Intermodal Next?

Just a few years ago intermodalism was a key to differentiation in ocean carrier marketing. "Today," says Randall, "it would be hard to argue that offering a stack train service is a point of differentiation."

Yet the growth of stack train intermodalism, pioneered by American President Companies almost a decade ago, has reaped little profit for carriers. "I don't know if any company has ever made money on the inland portion of their business," says Randall. At best, companies with intermodal operations are now covering their costs. "It's something they have to do now to be competitive internationally," Randall says, "but what was once an innovation is now a commodity." And if it's a commodity that isn't earning a significant return—look for rationalization.

We predict that some stack train operators will soon give up the ghost on dedicated stack train service, and opt instead for more frequent "generic" service—mirroring the evolution of ocean-side operations.

Price Still Steers the Ship

As ship operators seek new ways to cut costs and improve return, shippers continue their pursuit of "greater pricing flexibility." This is one trend that has held steady, or perhaps even increased due to the pressures exerted by the recession. The past year saw shippers and carriers still debating the relative merits of the conference pricing system and shippers were again irked by conference carriers' attempts to use antitrust immunity to forge general

continued

OCEAN CARRIERS RANKED BY EXPORT VOLUME
TOP CONTAINER CARRIERS PER TRADE ROUTE – 1990 vs. 1989

Carrier	1990 TEUs	1990 Mkt Sh	1989 TEUs	1989 Mkt Sh	% Volume Change
U.S. EAST COAST TO NORTHERN EUROPE					
Hapag Lloyd	63,538	11.0%	51,208	9.9%	+24.08%
OOCL	63,540	11.0%	47,111	9.0%	+34.87%
Maersk	57,056	9.9%	45,945	8.8%	+24.18%
Evergreen Line	56,742	9.8%	51,709	9.9%	+9.73%
Sea-Land	54,492	9.5%	57,396	11.0%	-5.06%
Trade Route Total	576,136		522,896		+10.18%
U.S. GULF COAST TO NORTHERN EUROPE					
Sea-Land	31,265	18.4%	30,156	19.7%	+3.68%
Hapag Lloyd	21,365	12.6%	16,534	10.8%	+29.22%
P&O Container Line	19,216	11.3%	18,126	11.8%	+6.01%
Euro-Gulf Liner Service	18,385	10.8%	12,661	8.3%	+45.21%
Lykes Lines	17,045	10.0%	17,[illegible]	11.3%	-1.49%
Trade Route Total	170,026		153,[illegible]		+10.85%
U.S. PACIFIC COAST TO NORTHERN EUROPE					
Maersk	24,466	23.4%	20,198	21.3%	+21.13%
Hapag Lloyd	23,611	22.6%	19,780	20.8%	+19.37%
Senator Linie	11,118	10.6%	6,991	7.4%	+59.03%
CGM French Line	10,879	10.4%	6,184	6.5%	+75.92%
Star Shipping	8,753	8.4%	5,826	6.1%	+50.24%
Trade Route Total	104,423		94,957		+9.97%

Carrier	1990 TEUs	1990 Mkt Sh	1989 TEUs	1989 Mkt Sh	% Volume Change
U.S. EAST COAST TO MEDITERRANEAN					
Zim Container	27,762	15.6%	25,945	15.9%	+7.00%
Sea-Land	25,362	14.3%	23,937	14.7%	+5.95%
Evergreen Line	17,492	9.8%	17,617	10.8%	-0.71%
Italian Line	14,894	8.4%	10,617	6.5%	+40.28%
Farrell Line	14,041	11.1%	12,637	7.7%	–
Trade Route Total	177,840		163,101		+9.04%
U.S. GULF COAST TO MEDITERRANEAN					
Lykes Lines	7,448	22.3%	6,270	22.3%	+18.79%
Spanish Line	5,011	15.0%	4,725	16.8%	+6.05%
Mexican Line	4,869	14.6%	3,074	10.9%	+58.39%
Maersk	3,668	11.0%	3,542	12.6%	+3.56%
Zim Container	3,588	10.7%	2,572	9.1%	+39.50%
Trade Route Total	33,419		28,150		+18.72%
U.S. PACIFIC COAST TO MEDITERRANEAN					
Zim Container	10,648	45.7%	6,737	45.5%	+58.05%
D'Amico	7,734	33.2%	4,191	28.3%	+84.54%
Italian Line	3,299	14.2%	2,678	18.1%	+23.19%
United Yugoslav	1,596	6.9%	1,211	8.2%	+31.79%
Trade Route Total	23,277		14,817		+57.10%

Carrier	1990 TEUs	1990 Mkt Sh	1989 TEUs	1989 Mkt Sh	% Volume Change
U.S. EAST COAST TO FAR EAST					
Evergreen Line	87,134	17.2%	103,785	21.6%	-16.04%
Maersk	83,346	16.4%	83,556	17.4%	-0.25%
Hanjin Shipping	78,445	15.5%	62,536	13.0%	+25.44%
Yangming Marine	59,463	11.7%	53,234	11.1%	+11.70%
OOCL	36,024	7.1%	32,375	6.7%	+11.27%
Trade Route Total	506,914		480,871		+5.42%
U.S. PACIFIC COAST TO FAR EAST					
American President	228,874	13.5%	226,702	13.9%	+0.96%
Evergreen Line	166,201	9.8%	158,178	9.7%	+5.07%
NYK Line	156,247	9.2%	138,005	8.5%	+13.22%
K Line	143,881	8.5%	131,952	8.1%	+9.04%
Sea-Land	132,760	7.8%	150,494	9.2%	-11.78%
Trade Route Total	1,693,582		1,627,550		+4.06%

Source: Journal of Commerce/Piers

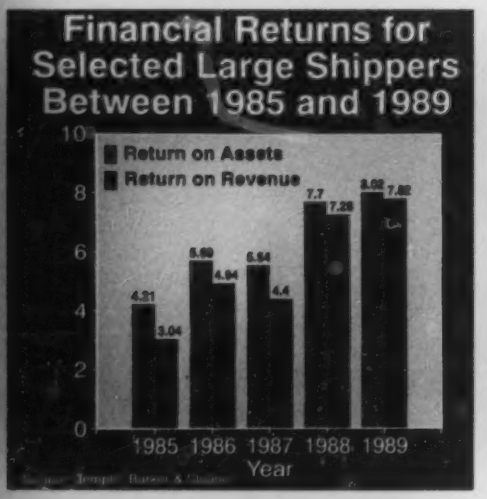
OCEAN CARRIERS RANKED BY IMPORT VOLUME
TOP CONTAINER CARRIERS PER TRADE ROUTE — 1990 vs. 1989

Carrier	1990 TEUs	1990 Mkt Sh	1989 TEUs	1989 Mkt Sh	% Volume Change
NORTHERN EUROPE TO U.S. EAST COAST					
Sea-Land	87,865	12.6%	91,929	12.8%	-4.42%
Hapag Lloyd	72,841	10.4%	73,122	10.2%	-0.38%
Atlantic Container	71,769	10.3%	73,994	10.3%	-3.01%
Maersk	71,080	10.2%	73,072	10.2%	-2.73%
OOCL	67,401	9.7%	58,376	8.1%	+15.46%
Trade Route Total	697,183		719,246		-3.07%
NORTHERN EUROPE TO U.S. GULF COAST					
Sea-Land	27,924	24.1%	24,686	21.9%	+13.12%
Lykes Lines	16,808	14.5%	15,316	13.6%	+9.74%
Hapag-Lloyd	14,391	12.4%	12,101	10.7%	+18.92%
P&O Container Line	8,836	7.6%	9,082	8.0%	-2.71%
Atlantic Cargo	8,484	7.3%	7,008	6.2%	+21.06%
Trade Route Total	170,026		153,385		+10.85%
NORTHERN EUROPE TO U.S. PACIFIC COAST					
Maersk	25,355	23.8%	21,652	19.2%	+17.10%
Hapag Lloyd	19,923	18.7%	17,792	15.8%	+11.98%
Evergreen Line	15,720	14.8%	11,152	9.9%	+40.96%
CGM French Line	10,322	9.7%	6,447	5.7%	+60.11%
Star Shipping	9,453	8.9%	15,600	13.9%	-39.40%
Trade Route Total	106,560		112,481		-5.26%

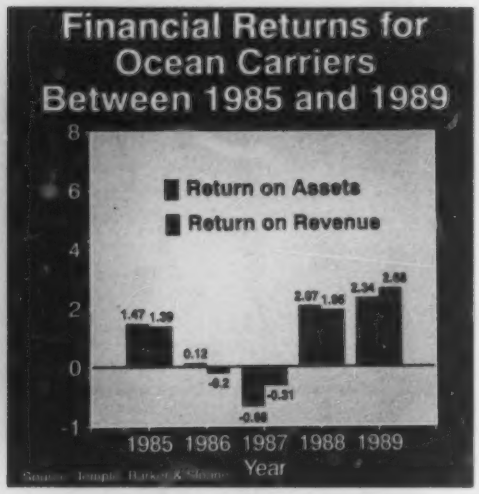
Carrier	1990 TEUs	1990 Mkt Sh	1989 TEUs	1989 Mkt Sh	% Volume Change
MEDITERRANEAN TO U.S. EAST COAST					
Sea-Land	35,609	13.6%	38,041	13.9%	-6.39%
Evergreen Line	24,486	9.4%	27,076	9.9%	-9.57%
Farrell Line	23,818	9.1%	25,350	9.3%	-6.04%
Zim Container	23,557	9.0%	23,898	8.8%	-1.43%
Jugolinia	23,540	9.0%	23,489	8.6%	—
Trade Route Total	261,780		273,094		-4.14%
MEDITERRANEAN TO U.S. GULF COAST					
Lykes Lines	6,060	26.8%	5,222	20.8%	+16.05%
Maersk	3,854	17.1%	5,481	21.9%	-29.68%
Zim Container	2,815	12.5%	2,960	11.8%	-4.90%
Nat'l Shipping of Saudi Arabia	2,211	9.8%	3,044	12.1%	-27.37%
Costa Line	2,058	9.1%	2,430	9.7%	-15.31%
Trade Route Total	22,574		25,073		-9.97%
MEDITERRANEAN TO U.S. PACIFIC COAST					
Zim Conatiner	14,840	39.4%	13,435	42.6%	+10.46%
D'Amico	8,353	22.2%	5,995	19.0%	+39.33%
Italian Line	7,715	20.5%	5,329	16.9%	+44.77%
United Yugoslav	6,712	17.8%	6,780	21.5%	-1.00%
Trade Route Total	37,620		31,539		+19.28%

Carrier	1990 TEUs	1990 Mkt Sh	1989 TEUs	1989 Mkt Sh	% Volume Change
FAR EAST TO U.S. EAST COAST					
Maersk	81,444	16.2%	81,605	16.3%	-0.20%
Evergreen Line	70,975	14.1%	77,309	15.4%	-8.19%
Yangming Marine	55,681	11.0%	48,963	9.8%	+13.72%
Hanjin Shipping	55,531	11.0%	57,658	11.5%	-3.69%
OOCL	43,070	8.5%	42,389	8.5%	+1.61%
Trade Route Total	504,162		501,380		+0.55%
FAR EAST TO U.S. PACIFIC COAST					
American President	378,352	16.1%	397,842	17.1%	-4.90%
Sea-Land	266,049	11.3%	258,465	11.1%	+2.93%
Evergreen Line	247,041	10.5%	224,744	9.7%	+9.92%
Hanjin Shipping	181,772	7.7%	178,544	7.7%	+1.81%
K Line	168,206	7.2%	193,055	8.3%	-12.87%
Trade Route Total	2,348,244		2,321,953		+1.13%

Source: Journal of Commerce/Piers



Carriers argue that shippers have profited from the Shipping Act of 1984...



...while it has put a financial squeeze on them; ROI has been below 3.0 since 1985.

rate increases.

As of this writing, rate-raising efforts by carriers in the import trade from the Far East have apparently been undermined by a slew of Independent Actions, in which carriers discount from the conference tariff to secure cargo. This is a sure sign that even with the Transpacific Stabilization Agreement in effect—in which carriers voluntarily agree to limit ship space in order to raise rates—there is a surplus of capacity in the market.

The trade was abuzz in May, a typically critical month in the Pacific trades; that's when carriers in the Asia North American Eastbound Rate Agreement renew most of their service contracts with customers—and hold their breath to see if per-container rate increases will hold. The buzz this year was caused by Maersk, which reportedly broke from the Anera pricing line at least 400 times, unleashing a torrent of rate actions by sales reps at other lines desperate to secure cargo. Maersk, of course, was chastised publicly by its competitors. The real pressure on conference carriers, though, is applied by independent carriers such as Evergreen and Hanjin, which can offer extremely low rates due to a combination of lower operating costs and government subsidies.

APC: A LEADER REGROUPS

For American President Companies, 1990 was the year the other shoe dropped. Industry analysts watched the transportation and distribution conglomerate rapidly expand, then wondered whether its asset base would eventually overextend the company.

In late 1990, APC cut costs and improved working processes. Stockholders decided to bring in a new man as president and chief operating officer, former supermarket executive John Lillie.

Lillie says the firm's "Cost Repositioning and Process Simplification" effort has worked. Operating costs this year will be reduced by $40 million, he says. "We looked at the entire business," says Lillie, "and asked ourselves 'What is essential to servicing our customers?' " As a result, many layers of management in the North American operation were pared away.

In fact, APC has elected to focus on improved service to the shippers' agents who market the bulk of APC's stacktrain service. "We've consolidated truck and rail into one organization called Carrier Services," says Lillie, "because we believe in treating the entire move as one process."

When Lillie looks at the company's global picture, the key growth markets are foreign. The Mexican market is increasingly important, especially for north/south stack trains. As for the ocean business, the Middle East and Southeast Asia currently are the hottest regions, with China holding long-term significance. "Maintaining most-favored-nation status for China is very important to us," he says.

Shipping Act Review

This year the long-awaited review of the Shipping Act finally got underway, and initial debate has centered on the value of the conference system and the antitrust immunity that allows carriers to try to set standard rate levels. The irony of the situation, for carriers, is that they are lobbying to preserve the Shipping Act as it now exists—while at the same time they complain that it has been a failure at helping them earn a decent return on investment.

Antagonism between ocean shippers and carriers has sadly become the norm. Shippers complain that conferences are highhanded, and show little flexibility in responding to the market pressures that impact their customers' businesses. Carriers resent shippers who continue to press for lower rates while lines' struggle to earn a profit. This constant debate, however, seems to obscure some underlying issues. Many shippers we've talked with seem to express a genuine understanding of the carriers' difficulties. What they don't understand is how sales reps can be allowed to "give away the store" in rate negotiations.

"We are prepared to negotiate service contracts in good faith," said one shipper who requested anonymity. "But invariably, as the deadline draws near, reps come in with all kinds of crazy low rates, desperate to make quota. There really isn't that big a difference in service levels anymore, so I take the lowest offer—that's how I'm judged by my bosses. Then I turn around and hear how we shippers are killing the carriers by driving rates down. All I can do is laugh when I hear that."

A solution to this quandary might start, as Hugh Randall suggests, with "every shipper and carrier taking a good look in the mirror."

Reasons for Optimism

The next six months, at least, will be difficult for ocean carriers and shippers alike. The U.S. recession will continue to impact business. Yet despite current difficulties, Hugh Randall is optimistic. He believes that "smart carriers will do well in the '90s." There are environmental and economic forces at work, beyond the boundaries of the industry, which he believes will help the long-term fortunes of ocean carriers.

Asia will remain the engine of economic growth in the world, and trade to and from Asia will continue to steadily expand. Emerging markets such as South America and Eastern Europe hold promise. There will be constraints on shipbuilding. These constraints will be forged by a combination of investor skepticism and shipyard incapacity. "New ships cost three times as much as they did only two years ago," says Randall. "That will certainly help carriers focus their priorities."

Recession Pounds Ports

The recession has been tough on the nation's ports, which are among the first businesses to feel the effects of decreased trade. According to the American Association of Port Authorities President Erik Stromberg, the recession has adversely affected "ports on all coasts, and of all profiles." As public agencies, ports are particularly hamstrung to fight the effects of a downturn in trade. "Ports are reactive," says Stromberg. "They can only influence outside forces to a limited extent."

One issue they will be trying to influence is the current Shipping Act review, in which continued antitrust immunity for ports and marine terminals will be debated. Ports would hate to lose the freedom to discuss pricing issues among themselves, since that freedom goes a long way toward helping public agencies gauge an adequate return on investment. The Justice Department may, however, be intent on removing some antitrust elements from the Act, and if carriers maintain immunity, as expected, ports could lose it.

Another issue pressuring ports is the increasing cost of compliance with more stringent environmental regulations. For ports, Stromberg says, the balance between commercial concerns and environmental protection has never been more precarious. "Those ports that are dependent on dredging for their future growth, and that's most of them, will be fighting for survival." ■

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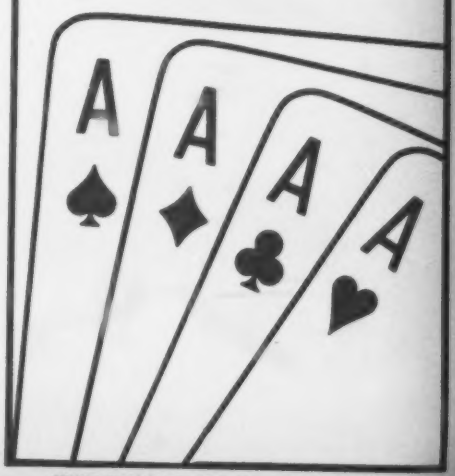

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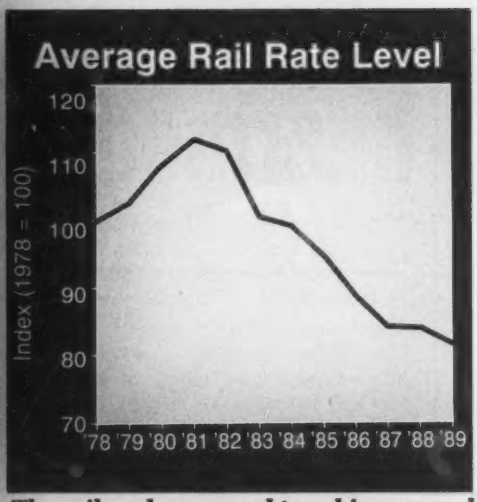


The railroads managed to achieve record results last year despite yet another decrease in average rate levels.

A Record Year For Railroads

The new decade began with a bang, and while the recession could affect short-term performance, the railroads appear well-positioned for growth.

By Jay Gordon, Executive Editor

The nation's freight railroads will do well to remember 1990. It was a year in which the industry set a number of significant records: ton-miles reached an all-time high of 1.043 trillion, and, more importantly, the railroads' return on investment reached a new high of 7.13 percent.

This performance was all the more remarkable given the the fact that rail rates again failed to keep pace with industry cost increases, resulting in yet another drop in real freight rates, which remain entrenched below 1980 levels.

"In the short run, the productivity curve ran ahead of the decline in rates," says Harvey Levine, vice president of economics & finance for the Association of American Railroads. "The programs (railroads have implemented) to become more efficient have been successful."

Those "programs" include a number of one-time writeoffs, often to pay for severance packages, that railroads took in recent years to get their cost structures under control. "The railroads have downsized their equipment fleets, their physical plant and their employees," says Dan Smith, manager-rail for Manalytics, Inc., a San Francisco management consulting firm specializing in freight transportation. "In the last 10 years, employment is down 50 percent."

"The special charges the railroads took for early retirement ran into the billions of dollars," adds Levine.

RAIL SYSTEMS: 1990 vs. 1989 ($ millions)

Major Railroads	1990 Revenue	1989 Revenue	% Change	1990 NOI	1989 NOI	% NOI Change	1990 ROI	1989 ROI	ROI Change
1. Burlington Northern	$4674.41	$4606.29	+1.48	$414.08	$473.08	-12.47	10.80%	12.02%	-1.22
2. Union Pacific	4587.74	4435.93	+3.42	548.42	540.13	+1.53	9.79	10.01	-0.22
3. CSX Transportation	4435.76	4345.75	+2.07	370.10	324.47	+14.06	5.76	5.02	+0.74
4. Norfolk Southern	3785.99	3694.08	+2.49	502.55	525.58	-4.38	10.29	10.91	-0.62
5. Consolidated Rail	3292.86	3323.84	-0.93	295.27	117.75	+150.76	5.13	2.09	+3.04
6. Southern Pacific Lines	2351.61	2270.98	+3.55	-27.20	-111.83	+75.68	NA	NA	NA
7. Atchison, Topeka & Santa Fe	2111.62	2201.97	-4.10	278.20	-137.05	NM	8.60	0.00	+8.60
Regional Railroads									
1. Chicago Northwestern	$809.95	$812.18	-0.27	$53.77	$48.21	+11.54	4.54%	4.58%	-0.04
2. Soo Line	593.96	539.21	+10.15	44.95	-19.94	NM	8.17	0.00	+8.17
3. Illinois Central	544.17	547.04	-0.52	111.44	81.14	+37.35	15.13	8.42	+6.71
4. St. Louis Southwestern	404.18	393.57	+2.69	9.53	6.67	+42.80	1.42	1.61	-0.14
5. Kansas City Southern	319.89	315.41	+1.42	36.73	38.33	-4.17	9.41	9.90	-0.49
6. Grand Trunk Western	310.05	327.05	-5.20	-8.84	1.32	NM	0.00	0.45	-0.45
7. Florida East Coast	142.64	142.65	-0.01	5.22	7.64	-31.73	2.56	8.15	-5.59

Key: NOI = net operating income; ROI = return on investment; NM = not meaningful; NA = not available
Source: ICC

"Now we're reaping the benefits."

Railroad performance would have been even better last year if not for the recession, a fact that wasn't lost on stockholders. "The market is discounting the recession *vis a vis* the railroads," Levine says, "and I think they're right."

But any discussion of last year's results risks obscuring some of the larger, more significant changes currently underway in the rail industry:

• **The railroads have become more focused.** The railroads are finally learning that they can't be all things to all customers. "They're not trying to sell railroad service as a solution to every problem," says Manalytics' Dan Smith. "They have sharpened their approach to their customers and to selling rail service.

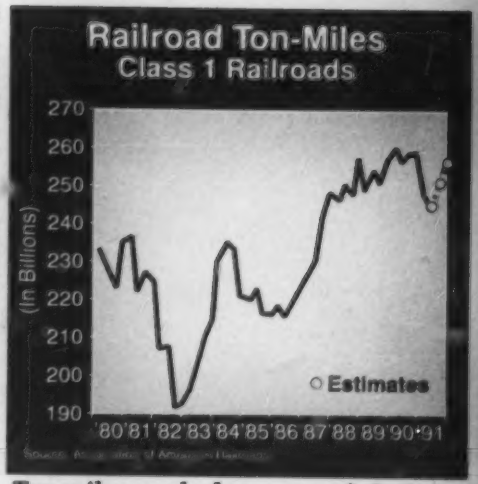
"Railroads used to look to each segment of their business to contribute to the bottom line," he adds. "But a lot of their traditional traffic went away; it didn't go to trucks, it simply *went away*." Smith cites boxcar traffic as an example. In the 1940s and 50s, the boxcar was billed as the "do it all" method of transportation. Now, boxcar traffic is mainly confined to lumber, paper and canned goods—segments where it truly is the most effective choice. "Today," Smith says, "carriers are applying rail service where it works best."

This new focus also applies to the railroads' physical plant. "You no longer have major downsizing programs among the railroads," says Michael Lloyd, a rail analyst with Salomon Bros. "They're done shedding track, and they won't be walking away from as much freight any more. The traffic that could be lost to trucks has been lost. Some of that will start to come back."

Finally, Lloyd and others believe the railroads have also become much more focused when it comes to pricing. "They are pricing services to make money on them and walking away from the business if they can't," he says. "They are becoming more like truckers in that regard." Manalytics' Dan Smith says the railroads are gradually shifting their approach from trying to be the low-cost provider of transportation—the 'I'm cheap and you can put up with most of my problems' approach—to being the reliable provider that also happens to be cost-effective.

• **The railroads are well-positioned for the 1990s—and beyond.** "The new emphasis on environmental and quality of life issues, such as roadway congestion, will force public and private concerns to view the railroads as a gem," says the AAR's Harvey Levine. Clearly, legislation like the Clean Air Act will also boost the railroads. The Act mandates that by 1995, utilities use low-sulfur coal in their plants, most of which is located in western mines. The railroads, which already haul the vast majority of coal, will now be

continued



Ton-miles reached new records last year, but the recession will hurt 1991 results.

RAILROAD CARLOADS — 1990 vs. 1989

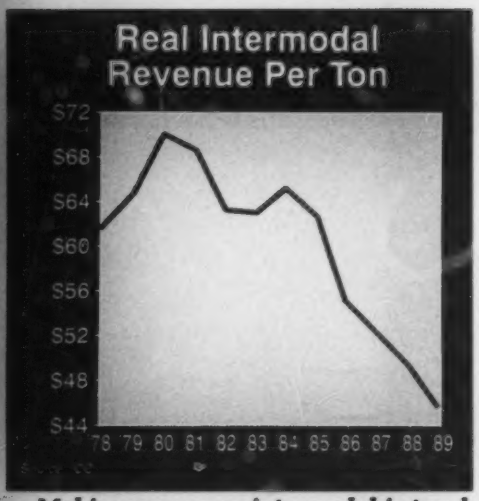
Class I Railroads	1990 Total	1989 Total	% Change
Atchison, Topeka & Santa Fe	1,050,459	1,075,424	-2.3
Burlington Northern	3,149,007	3,096,794	+1.7
Chicago & North Western	1,430,237	1,374,090	+4.1
Conrail	2,583,914	2,571,471	+0.5
CSX Transportation	4,602,808	4,657,657	-1.2
Florida East Coast	145,670	163,130	-10.7
Grand Trunk Western	451,265	474,157	-4.8
Illinois Central	770,115	815,979	-5.6
Kansas City Southern	405,427	377,080	+7.5
Norfolk Southern	3,184,090	3,192,428	-0.3
Soo Line	660,337	608,231	+8.6
Southern Pacific	1,366,483	1,365,932	—
Union Pacific	3,168,662	3,085,040	+2.7

Source: AAR

RAILROAD CARLOADS — 1990 vs. 1989

Regional Railroads	1990 Total	1989 Total	% Change
Apalachicola Northern	47,363	47,323	+0.1
Bangor & Aroostook	49,158	56,702	-13.3
Bessemer & Lake Erie	107,313	124,092	-13.5
Birmingham Southern	106,270	92,451	+14.9
Cambria & Indiana	14,386	14,408	-0.2
Duluth, Missabe & Iron Range	305,019	340,446	-10.4
Elgin, Joliet & Eastern	164,957	171,446	-3.8
Genesee & Wyoming	22,377	15,182	+47.4
Lake Superior & Ishpeming	77,765	145,425	-46.5
Mid Louisiana Rail	12,383	13,081	-5.3
Mid South Rail	164,984	151,856	+8.6
Monongahela	198,573	179,347	+10.7
Paducah & Louisville	198,423	185,333	+7.1
Pittsburgh & Lake Erie	65,509	60,720	+7.9
Pittsburgh & Shawmut	19,254	23,013	-16.3
Richmond, Fred. & Potomac	103,251	111,731	-7.6
South Rail	78,869	74,228	+6.3
Texas Mexican	36,904	38,212	-3.4
Trona	14,075	13,983	+0.7
Wisconsin Central	162,585	146,406	+11.1

Source: AAR



Making money on intermodal is tough while revenue per ton continues to drop.

hauling it over greater distances – increasing revenue ton-miles. And while coal may be a low-rated commodity, the costs to haul it are low too. "Coal is actually a high-margin commodity," says Michael Lloyd, "and if the railroads are hauling more of it, so much the better."

• **Intermodal's star continues to rise.** The increase in gas prices has helped, but that isn't driving the business, says Dan Smith. "Shippers aren't buying fuel economy, they're buying door-to-door service," he says. "It's getting easier for railroads to provide door-to-door service, while at the same time it's getting harder for trucks to do it." Truckers have periodic driver shortages, they must comply with emissions regulations and the highways are more and more congested, he adds. "As intermodal becomes more reliable, its market share will increase, as it has done already in key corridors."

Yet intermodal continues to suffer from what Smith calls the "Horns Effect." This is akin to the "Halo Effect," only in reverse: a traffic manager tried piggyback in 1973 and got burned, and now he won't even consider trying intermodal -- even though the service has improved dramatically since then. "It will take a while for the perception to catch up with the reality," Smith says.

Double-stack trains are helping to speed that process. "The double-stack train concept has lowered the cost structure for the railroads," says Michael Lloyd. "They can make money on that traffic." He says services in which the railroads cooperate with with truckers, such as J.B. Hunt/Santa Fe's Quantum service, will continue to grow as a source of freight.

• **The railroads are doing a**

continued

PERFORMANCE OF TRUCK VS. INTERMODAL

Rank	Criterion	Performance Rating Truck	Intermodal
1.	Service reliability	83%	68%
2.	Quality of pickup/delivery	86%	71%
3.	Availability of equipment	82%	71%
4.	Door-to-door transit time	85%	63%
5.	Quality of customer service	80%	72%
6.	Overall ease of doing business	83%	69%
7.	Low likelihood of damage	81%	64%
8.	Price	74%	75%
9.	Equipment quality	83%	68%
10.	Payment of damage claims	74%	60%
	OVERALL	88%	73%

Source: ITA/NITL Intermodal Index

SHIPPER SELECTION CRITERIA FOR TRUCK AND INTERMODAL

Rank	Selection Criterion	Importance Rating
1.	Service reliability	93%
2.	Quality of pickup/delivery	92%
3.	Availability of equipment	88%
4.	Door-to-door transit time	87%
5.	Quality of customer service	85%
6.	Overall ease of doing business	83%
7.	Low likelihood of damage	82%
8.	Price	81%
9.	Equipment quality	80%
10.	Payment of damage claims	75%

Source: ITA/NITL Intermodal Index

INTERMODAL TRAFFIC – 1990 vs. 1989

Railroad	TOTAL UNITS 1990 Total	1989 Total	% Change	CONTAINERS 1990 Total	1989 Total	% Change	TRAILERS 1990 Total	1989 Total	Change
Burlington Northern	1,170,207	1,118,931	+4.6	638,339	523,167	+22.0	531,868	595,764	-10.7
Conrail	1,164,023	1,144,231	+1.7	531,276	523,232	+1.5	632,747	620,999	+1.9
Union Pacific	1,019,890	929,342	+9.7	557,251	510,331	+9.2	462,639	419,011	+10.4
Southern Pacific	1,013,307	922,447	+9.8	672,810	560,508	+20.0	340,497	361,939	-5.9
Atchison, Topeka & Santa Fe	974,147	970,148	+0.4	308,568	275,962	+11.8	665,579	694,186	-4.1
Norfolk Southern	822,199	810,118	+1.5	340,425	321,806	+5.8	481,774	488,312	-1.3
CSX Transportation	733,042	716,810	+2.3	339,952	322,004	+5.6	393,090	394,806	-0.4
Chicago & North Western	583,688	554,607	+5.2	508,845	488,024	+4.3	74,843	66,583	+12.4
Florida East Coast	398,085	377,068	+5.6	15,722	13,127	+19.8	382,363	363,941	+5.1
Soo Line	185,419	166,976	+11.0	120,284	63,780	+88.6	65,135	103,196	-36.9
Grand Trunk Western	114,388	93,246	+22.7	23,787	24,780	-4.0	90,601	68,466	+32.3
Kansas City Southern	73,701	71,202	+3.5	21,233	23,960	-11.4	52,468	47,242	+11.1
Wisconsin Central	20,454	12,163	+68.2	4,821	3,917	+23.1	15,633	8,246	+89.6

Source: AAR

TOP INTERMODAL MARKETING COMPANIES BASED ON 1991 ESTIMATED REVENUES

Company	Revenues
Hub Group	$390,000,000
Alliance Shippers	265,000,000
American President Dist. Services	260,000,000
GST Corporation	240,000,000
Mark VII Transportation	170,000,000
Con-Way Intermodal	150,000,000
Rail-Van Consolidated, Inc.	125,000,000
Manufacturers Consolidated Service	112,000,000

Source: Intermodal Marketing Association

better job of seizing the opportunities they have. "The railroads have a long history of half-hearted marketing," says Dan Smith. This is largely because they have long viewed themselves as "hamstrung" by regulation. While many of the service improvements made by the railroads since deregulation were legally and technically possible before that, deregulation gave the railroads a "psychological kick," Smith says. Now, building a customized service to meet the needs of a specific shippers seems like less of a stretch. Services like Conrail's Mercury, BN America and Norfolk Southern's Triple Crown are evidence of this.

The railroads also are more willing

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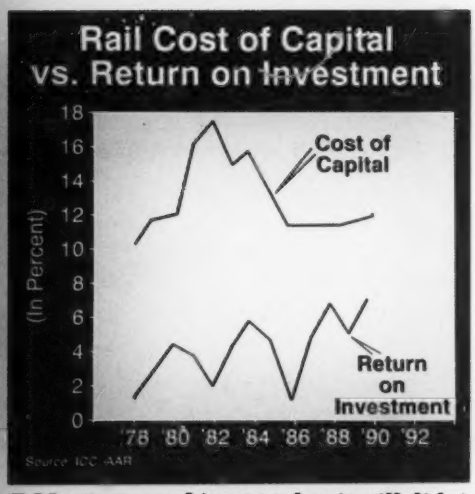


ROI set a record in 1990, but it still didn't meet the railroads' cost of capital. That's one reason they've had to downsize.

to invest when they see an opportunity. "For years you couldn't run double stacks from Chicago to Norfolk because the bridge clearances weren't there," Smith says. When it became clear there would be a significant volume of freight on this lane, Norfolk Southern went out and raised the clearances. The railroad now has access to a lot of freight and is more competitive with truckers. "The railroads are not viewed as a lucrative business, but these are extremely large corporations with huge asset bases," Smith says. "There is a lot of financial muscle that they can bring to bear on a problem."

What Lies Ahead?

While the railroads are leaner and meaner than ever, problems remain. Railroads are susceptible to downturns in the demand for goods, and thanks to a continued weak economy, the success of last year promises to be little more than a pleasant memory when 1991's results are tallied. Standard & Poors predicts the recession will cause rail traffic to slip 4.1 percent for the year, including downturns in almost every significant category, including intermodal, which has not lost ground in any annual period since 1980.

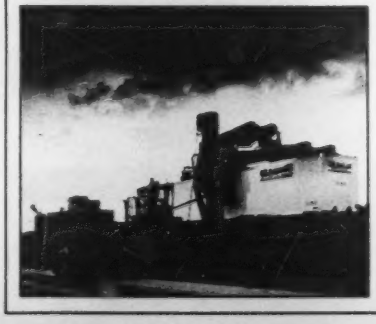
Productivity remains an issue. The railroads' continued success depends upon their ability to increase efficiency. That will become increasingly difficult. "In the long run, the productivity curve has to flatten out," says Harvey Levine of the AAR. "Certainly there are opportunities (for further improvements) over the next 10 years. But the long-term viability of the railroads cannot rest solely on improving productivity."

But the biggest burden is on the railroads to continue to prove themselves to shippers, says Dan Smith. "They have to build a loyal customer base," he says. And shippers owe railroads a chance to distinguish themselves, he adds. "People in distribution are going to have to wake up to what the railroads have to offer," says Smith. "They can't view it as an archaic last resort. What's needed is a mutual awakening." ■

HUB GROUP LOGISTICS PROVES THIS REALLY IS A SHIPPERS' AGENT

One reason The Hub Group is by far the largest shippers' agent in the country may be that it takes its nomenclature seriously. So seriously, in fact, that it recently set up a separate unit, Hub Group Logistics, to handle the intermodal logistics needs of its customers.

The concept should get a thorough testing now that Hub has signed a contract to handle the intermodal freight business for Sears Logistics Services (SLS). The SLS business is a significant coup for the fledgling Hub Group Logistics operation. Sears' intermodal shipments, which once numbered more than 100,000, have been reduced by half in the past three years. So the growth opportunities are impressive for Hub and its railroad partners.

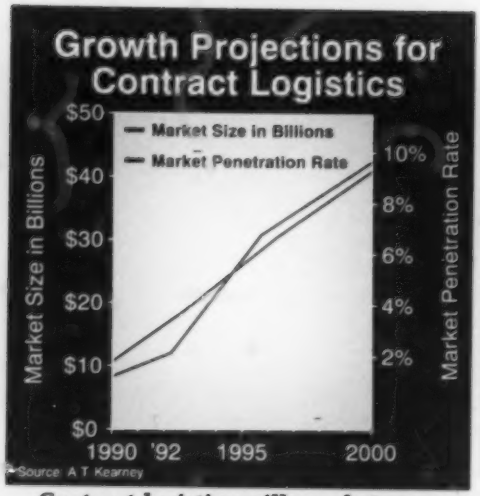


Sears' decision to close its Terminal Freight Handling unit took the retailer's focus off of intermodal. "That focus is something we'll bring to the party," says Dave Yeager, president of The Hub Group. "Hub Group Logistics represents our effort to centralize those accounts that really need a centralized focus."

The tremendous computer resources Hub will bring to the party should help too. All Hub offices are equipped with IBM System 36 computers, which are connected to an AS 400 unit via the IBM Information Network (IIN). The system is then used to transmit bills of lading, car location messages and other data interactively, a capability that was particularly attractive to Sears.

"When Sears enters an intermodal shipment into their computer, that information flows from the Sears information network into our AS 400," Yeager says. "We then identify by origin zip code which Hub operating company that dispatch is for, and we transmit that information to them." At the local level, managers who are familiar with local routing, service, costs and equipment availability can make the decisions that will provide Sears the best possible service.

Once the pick-up has been made, a confirmation report is sent to Sears, which automatically cuts a check for the transportation a few days later without having been presented with an actual invoice. Says Yeager: "It's virtually a paperless environment."



Contract logistics will reach 6 percent market penetration by 1995, with the market size growing to $24 billion.

Contract Logistics Finds Slow Going

During the past three years, many companies have emerged claiming to be third-party vendors. But be on the lookout, most are just imitators.

By E.J. Muller, Senior Editor

Contract logistics can extend beyond such basic services as warehousing and trucking into such things as sorting, tagging, pick and pack and light assembly. It's often said that the only limit is the imagination of vendors and clients.

In the United States, those imaginations have so far proved to be limited. Although some companies have been trailblazers in contract logistics, far more potential users have been reluctant to commit to the concept.

That hasn't prevented lots of new vendors from entering the market, of course. During the past three years as many as 50 companies have emerged, most at least claiming to provide third-party logistics service.

According to research conducted by Pat Byrne, vice president at A.T. Kearney, many of these firms are merely imitators. There are, however, a growing number of firms that have seriously invested in the market's potential: acquiring smaller regional trucking and warehouse operations, developing information systems and adding staff. Many of the leaders in this development are foreign companies, because in markets such as Europe and the Far East, contract logistics is already an accepted business practice.

According to Kearney's research, contract logistics has so far penetrated only 2 percent of the total potential U.S. market. Kearney estimates total annual expenditures on logistics-related activities at $581 billion; of that, $350 billion, or 60 percent, is spent in areas that could be outsourced. Current penetration of contract logistics into that relevant market amounts to just $6 billion.

Most of the contract logistics activity in this country to date falls under the "project management" category; it is used for special circumstances outside normal business activities, rather than as a new method of handling daily operations. That is, in fact, a smart way for companies to experience the value of contract logistics without full-scale commitment to a new operations strategy. It may be that when these "projects" run their course, many users will decide to commit to the concept on a regular basis, dramatically solidifying the industry's potential.

It is expected that contract logistics will grow at a rate comparable to the development of supply chain management among manufacturing companies. The "extended" nature of supply chains argues for greater use of outside vendors who can link many stages of the logistics pipeline through sophisticated information systems which are easily accessible by the customer.

Today there are basically four types of contract logistics providers: carrier-based, warehouse-based, forwarder-based, and customer-based (the latter group is typically a traffic department that has been spun-off into its own profit center). Kearney's research shows that carrier-based third parties have the lion's share of contract logistics revenues, with $4.25 billion of the $6 billion market. Warehouse-based providers are next, with revenues of $1.1 billion, fol-

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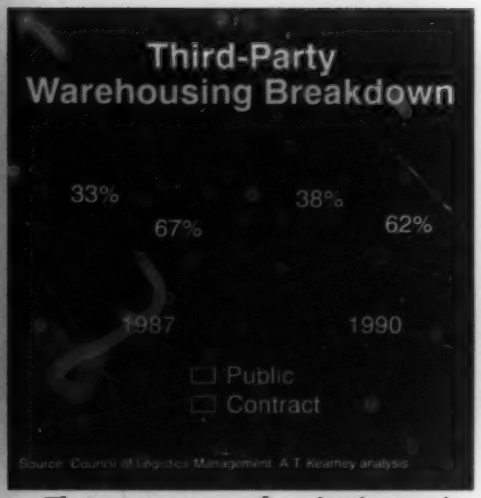

That contract warehousing is growing faster than public warehousing indicates this area is "ripe" for contract logistics.

lowed by forwarder-based companies at $400 million, and customer-based entities at $220 million.

Each of these entities has its own motivations for entering the market; typically it's a desire to find new business opportunities while leveraging assets. By and large, these companies are still defined by their origins, though Byrne says the lines are beginning to blur. "Roadway offers contract logistics, but it will always be perceived as a trucking company," he says. "But the market is starting to perceive some companies as pure contract logistics providers."

That's not to say that this perception places carrier-based companies at a disadvantage. According to the Kearney survey, shippers feel more comfortable with a carrier-based provider. Byrne believes shippers are attracted to the financial stability of a well-known transportation company, even if contract logistics is perceived as an adjunct to the core business. "Once the carrier proves itself," says Byrne, "the doors are wide open."

Some shippers are skeptical of carrier-based contract logistics vendors because they think their real motive isn't service, but the maximum leveraging of costly assets. There also have been numerous service failures among carrier-based providers, souring some companies on the concept. Byrne notes that there's increasing pressure on carriers to get serious about their contract logistics offerings. "Asset leveraging may be an initial ploy," says Byrne, "but it's not enough to sustain the business. The buyer must be convinced he's getting something more than he could buy already."

Of the four origin groups, Byrne says that U.S.-based growth has been strongest in the trucking sector, while warehouse-based operations have also grown steadily. Freight forwarding companies in the states are relatively new entrants to the market and have yet to attain the kind of all-encompassing "logistics agent" status that many foreign forwarding companies have. The slowest development has been in the "customer-based" group, where, aside from the parent company, a client list typically has to be built from scratch. ■

RYDER DEDICATES ITSELF TO FINDING LOGISTICS SOLUTIONS

Sunbelt Coca-Cola Bottling Co.'s 1990 merger with a neighboring bottler doubled the company's size and made it one of the top 10 Coca-Cola bottlers in the nation. In the process, it also doubled its distribution headaches.

Suddenly, Sunbelt had excess capacity and overlapping routes. It could have solved those problems on its own, but it didn't want to invest heavily in trucks and facilities, only to have to live by those decisions as the company grew. So like a growing number of companies, Sunbelt turned to Ryder System, Inc.

And Ryder came through with an innovative system that uses Sunbelt drivers to deliver beverages along traditional routes during the day, and Ryder drivers to ferry product between the company's plant and six distribution centers at night. Now, dedicated equipment is in use 20 to 24 hours a day, and Sunbelt's operating costs have decreased about four cents per mile—a decent chunk of change, since Sunbelt's trucks will log four million miles this year.

It is just this type of problem-solving that keeps Ryder at the top of the heap in dedicated contract carriage (DCC), a market segment that is growing up to twice as fast as any other part of Ryder's Vehicle Leasing & Services Division. In 1990, DCC accounted for 10 percent of the division's $3.3 billion in revenues, and it continues to enjoy double-digit growth. Overall, Ryder leads the $5 billion DCC market with a 6 percent share.

"What we're seeing is that with the profit pressures companies are experiencing, a lot of attitudes about using third-party logistics as an alternative are changing," says Larry S. Mulkey, president of Ryder Distribution Resources. "When they see that they can get quality service at a lower cost, they're more willing to say, 'We will explore that because we've run out of other alternatives.' " While in many cases the decision to outsource is still made by top management, more and more transportation and logistics people are open to discussing the idea. "The markets," says Mulkey, "are truly changing."